



Government OF INDIA

**REPORT  
OF THE  
HIGH POWERED COMMITTEE  
ON वैयक्तिक  
STOCK EXCHANGE REFORMS**

**MINISTRY OF FINANCE  
Department of Economic Affairs**



**स्टॉक एक्सचेंजों पर उच्चाधिकार समिति**  
**HIGH POWERED COMMITTEE ON STOCK EXCHANGES**

जी० एस० पटेल  
अध्यक्ष

**G. S. Patel**  
*Chairman*

SE-3/1940/85  
December 10, 1985.

**C/o. भारतीय यूनिट ट्रस्ट**

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Dear Shri Venkitaramanan,

**Re : Final Report of the Committee**

By the Notification no. 238 dated May 17, 1984 of the Ministry of Finance, Government of India had appointed the High Powered Committee on the Stock Exchange Reforms and had given to it the terms of reference as stated therein.

The Committee had submitted its Interim Reports on the various terms of reference, in time, to the Government.

I am now pleased to submit to you the Final Report of the Committee duly signed by all its members.

With Kind regards.

Yours sincerely,

**Sd./- G.S. Patel**



**Shri S. Venkitaramanan.**  
Finance Secretary  
Ministry of Finance  
Government of India  
New Delhi 110001.





**LIST OF MEMBERS OF THE HIGH POWERED  
COMMITTEE ON STOCK EXCHANGES**

|                                                                                                                                            |    |                         |
|--------------------------------------------------------------------------------------------------------------------------------------------|----|-------------------------|
| (1) G S PATEL<br>(Ex-Chairman, Unit Trust of India)                                                                                        | .. | <b>CHAIRMAN</b>         |
| (2) D R MEHTA<br>Secretary to Chief Minister of Rajasthan<br>(Ex-Controller of Capital Issues and<br>Joint Secretary, Ministry of Finance) | .. | <b>MEMBER</b>           |
| (3) DR. S M DUGAR<br>Joint Secretary<br>Deptt. of Company Affairs                                                                          | .. | <b>MEMBER</b>           |
| (4) S S NADKARNI<br>Chairman<br>Industrial Development Bank of India                                                                       | .. | <b>MEMBER</b>           |
| (5) M J PHERWANI<br>Chairman<br>Unit Trust of India                                                                                        | .. | <b>MEMBER</b>           |
| (6) DR. S A DAVE<br>Executive Director<br>Industrial Development Bank of India                                                             | .. | <b>MEMBER</b>           |
| (7) DR. D H PAI PANANDIKER<br>Secretary-General<br>Federation of Indian Chambers of Commerce and Industry                                  | .. | <b>MEMBER</b>           |
| (8) K V SHANBHOGUE<br>(Ex-President<br>Institute of Company Secretaries of India)                                                          | .. | <b>MEMBER</b>           |
| (9) M R MAYYA<br>Executive Director<br>Bombay Stock Exchange                                                                               | .. | <b>MEMBER</b>           |
| (10) E R KRISHNAMURTI<br>Executive Director<br>Madras Stock Exchange                                                                       | .. | <b>MEMBER</b>           |
| (11) DR. L C GUPTA<br>Dean, Research<br>Management Development Institute                                                                   | .. | <b>MEMBER</b>           |
| (12) PAUL JOSEPH<br>Joint Director (SE)<br>Deptt. of Economic Affairs<br>Ministry of Finance.                                              | .. | <b>MEMBER-SECRETARY</b> |



## VOLUME: I

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## CHAPTER 1

### INTRODUCTION

1.1 The Government of India, Ministry of Finance, constituted a High Powered Committee on May 17, 1984 to make a comprehensive review of the functioning of the recognised Stock Exchanges in India, as an integral part of the national financial system. The Government framed wide ranging Terms of Reference for the Committee on various aspects of the functioning of the securities industry in India such as the organisation and management of Stock Exchanges, terms and conditions of admission to membership, listing of securities, cost of public issue of capital, bye-laws and regulations relating to trading, simplification of procedures for security transactions, safeguarding the interests of investors and members, improving overall service to the investors, methods of acquisition and financing of premises for Stock Exchanges, etc.

1.2 The relevant Notification of the Government of India and the Terms of Reference are reproduced at the end of this Chapter.

1.3 This Committee has been set up by the Government after a lapse of over three decades, the last one namely, the Gorwala Committee, having been appointed in 1951, based on whose recommendations the framework and structure of the Securities Contracts (Regulation) Act, 1956, which, at present, controls and regulates the functioning of the Stock Exchanges, has been drawn up.

1.4 The broad scope of the Terms of Reference of the Committee indicates the genuine concern of the Government of India and an earnest of their desire for the smooth and healthy functioning and development of the securities industry in India to achieve accelerated industrial development and a faster economic growth in the country. It also reflects the growing importance attached by the Government to the capital market in India as one of the appropriate agencies for raising significant financial resources from the savings of the community, for the above purpose.

1.5 In the context of the recent pragmatic policy changes announced by the Government, such as lowering of the tax rates for individuals and the corporate sector, liberalisation of industrial licensing, growth-oriented measures relating to industries like electronics, textiles, drugs and pharmaceuticals, cement, automobile, etc. as also exports and imports, a dramatic change in the economic environment has been brought about.

1.6. The general buoyancy in the stock markets as witnessed by the substantial increase in the volume of trading in securities and a spurt in the prices of equity shares recently, bears an eloquent testimony to the welcome change in the investors' psychology resulting from this new environment. There has also been

a sharp increase in the quantum of consents for capital issues which has gone up from Rs. 1023 crores in 1983-84 to Rs. 2038 crores in 1984-85 as well as in the capital raised through prospectus in the new issue market from Rs. 322.1 crores in 1983-84 to Rs. 367.25 crores in 1984-85. Simultaneously the index of security prices of Ordinary industrial Securities published by the Reserve Bank of India, has also registered substantial gains of points from 209.1 in January 1984 to 347.8 in July 1985 (on an average of weeks ended Saturday),—1970-71=100.

1.7 In the light of such a fast changing economic scenario, the Stock Exchanges will have to gear up themselves for mobilising, on an increasing scale, the growing levels of savings of the community and for channellinging the same into investments in industrial securities and also for effectively coping up with the rapidly increasing volume of turnover therein. The need for a more efficient and systematic functioning of the Stock Exchanges in India cannot, therefore, be gainsaid.

1.8. The Committee had sent out its Terms of Reference and/or a general questionnaire to the Stock Exchanges, several institutions and bodies associated with the securities industry, commercial banks, Associations and Chambers of Commerce, Management Institutes, merchant bankers, other professional bodies and prominent individuals to elicit their views and comments on the present system of functioning of the Stock Exchanges and inviting their suggestions for improving the same. Moreover, special communications were issued to all the recognised Stock Exchanges to furnish detailed data and information relating to membership, organisation and management, listing of securities, procedures and practices with regard to trading etc. The general letters written in this regard are reproduced in Annexure 1 to 3 (Vol. II). The Committee also held discussions with the representatives of all the Stock Exchanges at various centres for ascertaining their views in this regard.

1.9 The Committee is gratified to receive detailed and exhaustive replies and suggestions from these various quarters particularly with regard to the ways and means of safeguarding the interests of the investing public in the context of the fast development of the capital market and the substantial growth of activities of the Stock Exchanges, envisaged in the next two decades.

1.10 The lists of all those to whom the Committee addressed the letters and the questionnaire and who sent their replies are given in Annexure 4A to 4M (Volume II). The questionnaire was general and not detailed in nature in view of its price sensitive nature and other implications. We also received quite a few individual letters from some stockbrokers, individual shareholders of some companies, individual or bodies



of investors, etc. If while preparing the lists some names of individuals or bodies are inadvertently omitted, the lapse is regretted.

1.11 We had also met a number of stockbrokers either in person or in groups or at meetings of the representatives of all the Stock Exchanges at different places, which were well attended.

1.12 We would like to state that we have given due consideration to the views and valuable suggestions of all those who had met us in person or written to us, while finalising our Report.

1.13 The Committee places on record its deep sense of appreciation to all the Stock Exchanges and their members, financial institutions and banks, merchant bankers, Institute of Management, Institute of Company Secretaries of India, Institute of Cost and Works Accountants of India and various other professional bodies, corporate bodies, leading solicitors, Chartered Accountancy firms, Shareholders' Associations and others for having given their considered views, observations and suggestions either in writing or orally. The Committee wishes to record that it also received valuable help in compiling the statistical material included in the Report from the Department of Company Affairs, the Stock Exchange Division of the Ministry of Finance, the Stock Exchange Foundation, Bombay, Industrial Credit and Investment Corporation of India, Bombay, Centre for Monitoring Indian Economy, Bombay, M/s. J. M. Financial and Investment Consultancy Services Private Limited, Bombay and M/s. FICOM Consultants, Bombay.

1.14 The Committee has also benefited from the views of Shri M. R. Mayya (Bombay Stock Exchange), Shri Paul Joseph (Ministry of Finance), Shri R. K. Pandey (Delhi Stock Exchange) who had visited the U.S.A. and the U.K. to study the working of the Stock Exchanges.

1.15 A special mention deserves to be made of the valuable assistance received by the Committee from the Australian Stock Exchanges, Stock Exchanges of Japan, New York Stock Exchange, London Stock Exchange and the Department of Domestic Monetary Affairs, Ministry of Finance, Netherlands in the form of literature on the subject.

1.16 All the Terms of Reference and replies to the questionnaire and suggestions on the various points which were received were discussed by the Committee at great length at 14 meetings held at different centres from May 1984 to August 1985 (as per list given in Annexure 5—Volume II) and the members of the Committee were able to crystallise their views and recommendations as set out in greater detail in the following Chapters. Dr. L. C. Gupta has submitted a separate note on certain issues before the Committee. The same is given in Annexure 17—Volume II. While the Committee has already dealt with some of these issues, directly or indirectly, in the Report, the Committee has not been able to accept his views on some others.

1.17 The Committee had constituted two Sub-Committee on the Rules, Bye-laws and Regulations

of Stock Exchanges and legal matters relating to the Stock Exchanges. The members of the Committee on the Rules, Bye-laws and Regulations comprised of Sarvashri M. R. Mayya (Bombay Stock Exchange), E. R. Krishnamurti (Madras Stock Exchange), J.C. Pandya (Ahmedabad Stock Exchange), R. K. Pandey (Delhi Stock Exchange) and V.D. Sonde (Bombay Stock Exchange), while the Committee on legal matters consisted of Sarvashri S. M. Dugar (Department of Company Affairs), C. Chandrasekhar (Industrial Credit and Investment Corporation of India), G. Sreerama Murthy (Industrial Development Bank of India), S. Shankar (Unit Trust of India), Sooraj Kapoor (Department of Company Affairs) and S. N. Agrawal (Institute of Company Secretaries of India). The Committee is thankful to the said members for assisting the Committee in finalising its recommendations on the subjects assigned to them.

1.18 The Report of the Sub-Committee on the Rules, Bye-laws and Regulations of the Stock Exchanges, as given in Volume III of this Report, contains the recommendations of the said Sub-Committee on the amendments/clarifications required in the said Rules, Bye-laws and Regulations to bring them up-to-date in the light of the changes which have taken place and practical difficulties being presently experienced in the administration and working of the Stock Exchanges. However, the said Rules, Bye-laws and Regulations as recommended to be amended by the Sub-Committee do not contain the amendments suggested by the Committee to implement the recommendations made by it in the different areas of the functioning of the Stock Exchanges. The said amendments can be incorporated in the said Rules, Bye-laws and Regulations only after the Government accepts the said recommendations.

1.19 The Committee has also suggested a few amendments to the Securities Contracts (Regulation) Act, 1956, Income Tax Act, 1961, Companies Act, 1956, etc. An indicative list of the amendments to be carried in the Rules, Byelaws and Regulations of the Stock Exchanges and the above mentioned Acts in respect of the important recommendations made by the Committee is given in Section VIII of Chapter 12.

1.20 The Committee also places on record its thanks to the Unit Trust of India for having sponsored studies relating to the computerisation and simplification of procedures and transactions of Stock Exchanges by the Tata Consultancy Services and also for sponsoring a study relating to cost of public issues of industrial securities by Dr. H. R. Machiraju. The Committee is equally appreciative of the gesture made by the Industrial Credit and Investment Corporation of India Limited for sponsoring a study on geographical spread of the shareholding population by Dr. L. C. Gupta.

1.21 The Committee is also thankful to the Industrial Development Bank of India, the Unit Trust of India, the Industrial Credit and Investment Corporation of India Limited, The Canara Bank and the Madras Stock Exchange for hosting the Committee's meetings at New Delhi, Bombay, Bangalore and Madras.

1.22 The Committee would be failing in its duty if it does not make a mention and convey its thanks to the Industrial Development Bank of India and the Unit Trust of India for having spared the valuable services of Dr. R. H. Patil and Shri Gireesh Bhagat respectively who have assisted the Committee, with utmost sincerity and devotion, at all the stages of the preparation of this Report.

1.23 The Committee also conveys its grateful thanks to the Unit Trust of India for providing excellent secretarial services throughout the tenure of the Committee. But for the efficient secretarial assistance placed at the disposal of the Committee by the Unit Trust of India, it would not have been possible for the Committee to complete the task and submit the Interim Reports on all the Terms of Reference within the stipulated time.



## GOVERNMENT OF INDIA

Ministry of Finance  
(Department of Economic Affairs)

New Delhi, the 17th May, 1984

### NOTIFICATION

S.O. 385 (E).—Stock Exchanges recognised by the Government have been functioning in the country during the past several years. At present, there are 13 recognised Stock Exchanges functioning in the country. A few more Stock Exchanges are likely to be recognised in the near future. The importance of Stock Exchanges has increased in the recent past on account of the substantial increase both in new issues of capital and operations in the secondary market. The Stock Exchanges play an important role in the mobilisation of savings of the public for investment in industrial securities for financing new and expansion projects. In the light of the experience gained in the working of Stock Exchanges, Government have decided to set up a High Powered Committee to make a comprehensive review of the functioning of the Stock Exchanges and to make recommendations to the Government in the matter.

The terms of reference to the Committee will be as follows :

- (i) to examine the general functioning of the Stock Exchanges as an integral part of the financial system of the country;
- (ii) to suggest measures to improve overall service to the investors by the Members of Stock Exchange, and to suggest measures, to encourage small investors particularly in semi-urban and rural areas to invest in industrial securities with a view to mop up larger volume of capital for productive investments;
- (iii) to look into the existing system of organisation and management of Stock Exchanges with a view to broad-base it so as to make it representative of all concerned interests, and to suggest a uniform model of organisation;
- (iv) to examine the existing procedures and documentation relating to stock transactions with a view to simplification and minimising delays;
- (v) to look into the existing systems of membership of Stock Exchanges with a view to facilitate periodic increase in membership and to evolve a system of agents of Stock Exchanges;
- (vi) to look into the existing system of Byelaws and Regulations of Stock Exchanges relating

to trading in securities and to suggest measures with a view to ensure smooth functioning of Stock Exchanges so that they are not disrupted by recurrent crises and that they are able to efficiently handle a much larger volume of securities;

- (vii) to examine the existing system of Rules and Regulations relating to listing of securities in Stock Exchanges and the listing agreement between companies and Stock Exchanges;
- (viii) to suggest measures to minimise the cost of public issue of capital;
- (ix) to suggest a Code of Conduct for members of Stock Exchanges to safeguard the interest of investors and the members and to suggest guidelines for creation of a customers' protection fund and insurance of members;
- (x) to suggest methods for acquisition/construction of the premises for Stock Exchanges and the manner of its financing;
- (xi) to make suggestions on any other matter which is relevant to (i) to (x) above for further development of Stock Exchange activities.

The composition of the Committee will be as follows :

1. Shri G. S. Patel  
Bombay. —Chairman
2. Shri D. R. Mehta  
Joint Secretary  
Department of Economic Affairs.—Member
3. Shri S. M. Dugar  
Member, Company Law Board  
Department of Company Affairs.—Member
4. Dr. S. A. Dave  
Executive Director  
Industrial Development of India  
Bombay. —Member
5. Shri S. S. Nadkarni  
Chairman & Managing Director  
Industrial Credit and  
Investment Corporation of  
India, Bombay. —Member
6. Dr. D. H. Pai Panandiker  
Secretary-General  
Federation of Indian Chambers  
of Commerce and Industry  
New Delhi. —Member

7. Shri K. V. Shanbhogue  
President  
The Institute of Company  
Secretaries of India  
New Delhi.

—Member

8. Shri M. J. Pherwani  
Chairman  
Unit Trust of India  
Bombay.

—Member

9. Shri M. R. Mayya  
Executive Director  
The Stock Exchange  
Bombay.

—Member

10. Shri E. R. Krishnamurti  
Executive Director  
Madras Stock Exchange  
Madras.

—Member

11. Dr. L. C. Gupta  
Dean, Development Banking Centre  
Management Development Institute,  
New Delhi.

—Member

12. Shri Paul Joseph  
Joint Director (Stock Exchanges)  
Department of Economic Affairs.

—Member-Secretary

The Committee is expected to submit its report  
within one year from its constitution.

F. No. 1/14/SE/84

(Sd) P. K. KAUL  
Secretary to the Government of India



## CHAPTER : 2

### STOCK EXCHANGES AND THE FINANCIAL SYSTEM

2.1 The economic relevance and *raison-d'être* of the Stock Exchanges as an integral part of the financial system in a national economy lie in its effectiveness in performing successfully two basic functions, viz., (1) to enable the Government and the corporate sector to raise resources from the community to meet their financial requirements; and (2) to provide an organised market place for the investors to freely buy and sell securities. The functioning of the Stock Exchange has, therefore, to be such as to create a climate conducive to build an active primary market for new issues, to ensure fair and efficient trading in the securities in the secondary market and to establish a harmonious relationship between the two.

2.2 A healthy and active secondary market in existing securities leads to a better psychology of expectations, considerable broadening of investment inquiries and makes it easier for the Government entrepreneurs to raise resources through the new issues of securities. A better performance and outlook on the equity front in the secondary market imparts, in turn, buoyancy to the new issues market which leads to more company floatations, broadens and diversifies the industrial structure of the economy, creates more employment opportunities, builds up a new class of entrepreneurs and leads to accelerated capital formation in the country. Viewed thus, the buoyancy and continued development of the new issues market on sound and healthy lines becomes possible only when there is a strong and active secondary market functioning efficiently and providing to the investors reasonably satisfactory liquidity of their investment in industrial securities.

2.3 All the securities issued by Central and State Governments, local authorities, Port Trusts and public bodies are listed on the Stock Exchanges in India. Amount-wise, they constitute a preponderant proportion of all the securities so listed. But because of the fact that individual investors do not evince much interest in view of yield and other consideration the market for Government and Government guaranteed securities is a captive one, in the sense that institutional investors like General Insurance Corporation, Life Insurance Corporation, commercial banks, provident funds, public charitable trusts, etc. are obliged to invest certain proportion of their funds in such securities. Trading in these securities is comparatively narrow and is mainly confined to those who are statutorily required to invest in them. Therefore, any discussion on the role of the Stock Exchanges in India as mobilisers of capital would be meaningful and relevant mostly in relation to their raising of the resources from the community for the use of

the corporate sector. As such, the discussion that follows is confined to the functioning of the Stock Exchanges with reference to the existing as well the new securities of the units in the corporate sector.

#### (a) Development and Growth of the Stock Exchanges in India

2.4 At present there are 14 recognised Stock Exchanges in the country at Bombay, Calcutta, Madras, Delhi, Ahmedabad, Hyderabad, Indore, Bangalore, Cochin, Pune, Kanpur, Ludhiana, Gauhati and Mangalore. The oldest Stock Exchange is the one at Bombay, established in 1875 while the youngest at Mangalore was set up in 1985. As many as 5 of these have been established since 1978. (Table No. 1)\*. The Stock Exchanges are basically auction markets providing competitive conditions for buying and selling of securities. The orders of the intending buyers and sellers of securities, from all over the country, converge on the Stock Exchanges and are executed through the stockbrokers at the best available market prices as determined by the forces of demand and supply, at any given point of time.

2.5 Since Independence, there has been a tremendous growth in the number and variety of the new issues listed on the Stock Exchanges and in the volume of daily transactions, especially in the securities that are popular with the investors and favourites with the speculators. The number of companies whose securities are listed on the Stock Exchanges increased from 1125 in 1946 to 1203 in 1961 and to 3882 in 1984. Thus, by 1984 roughly one out of every four public limited companies in the country was listed on the Stock Exchanges. The number of share and debenture issues of the listed companies increased from 1506 in 1946 to 2111 in 1961 and further to 5485 in 1984. The paid-up capital of these listed companies increased much more sharply from Rs. 270 crores in 1946 to Rs. 675 crores in 1961 and to Rs. 5082 crores in 1984. It is estimated that this represents about 90 per cent of the paid-up capital of about 14,000 non-government public limited companies. The market value of the paid-up capital of the listed companies also increased sharply from Rs. 971 crores in 1946 to Rs. 1216 crores in 1961 and to Rs. 9,984 crores in 1984 (Table No. 2). Even though the paid-up capital of the listed companies is considerably lower than the total value of Central and State Government loans at Rs. 30,658 crores listed on the Stock Exchanges as at March 31, 1984, the activity in the securities of the listed companies is manifold compared to the less frequent dealings in Government securities.

\*Tables referred to in this Report are given in Vol. II of the Report.

2.6 In spite of the above growth and the sustained efforts of the Government and the public financial institutions during the last three and a half decades to develop the capital markets for mobilising the savings from a cross section of investors in the country, the Stock Exchanges still remain on the periphery of the country's financial system. This is obvious from the fact that the financial assets held by the household sector in the form of corporate and co-operative securities still constitute only about 27% of the total household sector's savings (Table No. 3). Moreover, investment in corporate securities is just 0.3% of the national income and has not kept pace with the growth of savings of the household sector in financial assets. Suitable steps will have, therefore, to be taken to ensure the Stock Exchanges mobilise the financial surpluses of the household sector to a much larger extent than at present for the socio-economic transformation of the country.

2.7 For a country like India, the total number of Stock Exchanges at 14 may be considered inadequate especially in view of its vast geographical area and the wide dispersal of potential investor population. This apart, even the existing Stock Exchanges do not appear to have grown in a balanced fashion. At the time of Independence, Calcutta was the largest Stock Exchange both in terms of number of listed companies as also in terms of the value of paid-up capital of the securities listed. During the post-Independence period, the growth in the volume and the value of business on the different Stock Exchanges has varied considerably. The Stock Exchange at Bombay emerged during the mid 60s as the most dominant one surpassing the one at Calcutta. In 1946, Calcutta had 807 listed stocks with the paid-up capital amounting to Rs. 147 crores while Bombay had 271 listed stocks with the paid-up capital of Rs. 123 crores. In 1984, although the number of listed stocks on the Calcutta Stock Exchange at 2314 was higher than 2154 listed stocks on the Bombay Stock Exchange, the paid-up value and the market value of the listed stocks at the Bombay Stock Exchange at Rs. 5,814 crores and Rs. 10,219 crores respectively were substantially higher than the corresponding figures of Rs. 2,574 crores and Rs. 5,392 crores of the Calcutta Stock Exchange. (Table No. 4)

2.8 The Delhi Stock Exchange has recorded a sharp growth rate with the number of listed stocks increasing from 92 in 1946 to 1331 in 1984 with their paid up capital increasing by about 35 times from Rs. 73 crores to Rs. 2575 crores during the period. Ahmedabad Stock Exchange also experienced significant increase in the number of listed stocks from 82 in 1946 to 522 in 1984 with their paid-up capital increasing more sharply from Rs. 15 crores to Rs. 1622 crores during the period. Madras Stock Exchange has registered a comparatively smaller growth rate with the number of listed stocks increasing from 298 in 1946 to 720 in 1984 although the paid-up capital of these stocks increased quite sharply from Rs. 41 crores to Rs. 1,971 crores during the period. (Table No. 4)

2.9 Of the 13 Stock Exchanges in the country (at the end of 1984), the Stock Exchange at Bombay has emerged as the most dominant one. The number of

issues listed on the Bombay Stock Exchange at 2154 in 1984 accounted for nearly two-fifths of the total of 5485 issues listed on all the 13 Stock Exchanges. The predominance of the Bombay Stock Exchange among all the Stock Exchanges becomes evident from the fact that it accounts for 66.8 per cent of the paid-up capital and 76.4 per cent of the market value of the issues listed on all Stock Exchanges (Table No. 4). The Bombay Stock Exchange is today the most active market accounting for about 60 per cent of the total volume of trading on all the Stock Exchanges.

#### (b) Distribution pattern of listed companies

2.10 Data as of end 1984 indicate that most of the companies were listed with only one or two Stock Exchanges. Of the 3882 listed companies securities of 2482 companies were listed only on one Stock Exchange while those of 1099 companies were listed on two Stock Exchanges. The number of companies listed on three Stock Exchanges was relatively small at 203 and on four Stock Exchanges smaller still at 63 (Table No. 5).

2.11 The inadequate and imbalanced growth of the Stock Exchanges in the country has resulted in (i) uneven distribution of the pattern and frequency of trading and lack of price continuity and liquidity of the listed stocks at many of the Stock Exchanges; (ii) insufficient spread of investment habits and consciousness in the country; (iii) inadequate mobilisation of the savings especially of investors in the semi-urban and rural areas; and (iv) lack of effective communication and free flow of information regarding stock market operations. The question of wider distribution of trading on all the Stock Exchanges, listing of securities on more Exchanges and suitable changes in the listing fees to encourage such listing integration and linkages of different Stock Exchanges at the national level, etc. needs, therefore, to be examined carefully to ensure a balanced development of the Stock Exchanges and better service to the investing public in the country.

#### (c) Ownership of Industrial Securities

##### (i) Number of investors

2.12 Although the number of investors in industrial securities has increased substantially during the last 15 years it is still small compared to the size of the population.

2.13 A recent study conducted by the Bombay Stock Exchange has revealed that there has been a rapid increase in the number of shareholders especially after 1978. Since then, not only public response to issues of debentures and equities has been encouraging but also the quantum of capital raised itself has increased considerably. As per the recent Bombay Stock Exchange study covering 1,147 listed companies, the number of shareholders on the books of these companies aggregated to 9.7 million in 1984. The study estimates the gross shareholders' population in the country at about 18 million. On account of multiple holdings of a shareholder, the actual number of shareholders on a net basis is likely to be about 5 million which is just 0.7 per cent of the population in the country. It is, thus, obvious that the Stock

Exchanges have not yet been able to attract investible resources from a majority of the potential investors in the country.

### (ii) *Geographical spread*

2.14 An analysis of geographical spread of investors also indicates that most of the existing shareholders are located in metropolitan cities and in a few other urban centres in the country. The interim results of a study on geographical distribution of shareholders of 80 selected companies conducted by Dr. L.C. Gupta equally brings out the urban-based distribution of shareholders. The study points out that shareholders population was concentrated in five cities, viz. Bombay (29.6 per cent), Delhi (12.1 per cent), Calcutta (11.6 per cent), Ahmedabad (7.6 per cent) and Madras (5 per cent). Thus, these five cities together accounted for 65 per cent of the country's total shareholders' population in the 80 large companies included in the sample study. The overall picture reveals that Semi-urban towns with population upto 1 lakh had rather insignificant shareholders' population, while the rural areas were even much less important from their point of view. In case of new issues of capital also, an analysis of 17 issues recently made (Table No. 6) shows that the public response from the main centres in Maharashtra and Gujarat and New Delhi was as much as 50% to 75 per cent in terms of number of applications and 50 per cent to 85 per cent in terms of amount subscribed.

2.15 A recent study on "Ownership Pattern of Share and Debentures of IDBI assisted Companies" published by the Industrial Development Bank of India has pointed out that among the different categories of individual investors, professionals and self-employed persons formed the largest single group accounting for 28.6 per cent by way of number of accounts and 31.9 per cent of the amount of total equity held by all individual investors. Salaried persons were next in importance having 21 per cent of the total value of individual holdings. Another 18 per cent of the total individual holdings were in the names of persons engaged in household work. The holdings of farmers were barely 7.5 per cent of the total. Thus the Industrial Development Bank of India study also confirms the general presumption that ownership of Industrial securities is confined primarily to urban areas.

2.16 From these various studies it appears that for spreading the cult of industrial securities amongst as large a number of potential investors as possible, it would be desirable not only to increase the number of Stock Exchanges but also to widen the network of intermediaries viz., stockbrokers, agents/sub-brokers, etc. through whom the investors in the far flung places in the country could be approached.

### (iii) *Pattern of Ownership*

2.17 The limited available data indicate that during the last two decades, the ownership pattern of equities has been increasingly shifting in favour of joint stock companies and financial institutions. The combined shareholdings of public financial institutions and joint stock companies in 121 companies increased from

49.5 per cent in 1965 to 59.2 per cent in 1978, as revealed by a sample survey study of the shareholding pattern conducted by the Reserve Bank of India.

2.18 The analysis of 361 companies conducted by the Reserve Bank of India indicates that as at end 1978 although nearly 99.3 per cent of the number of accounts were held in the name of individual shareholders. Amount-wise, the total shareholdings of individuals at Rs. 522.64 crores accounted only for about 37.6 per cent of the total paid-up capital of these companies. Among individual shareholders, those with shareholdings exceeding Rs. 50,000 (paid-up value) each accounted for 21 per cent of the aggregate shareholdings (by value) by all individuals. The joint stock companies that promote other companies, quite often, account for substantial proportion of the paid-up capital of their promoted companies. According to the above Reserve Bank of India study, 33.8 per cent of the total paid-up capital of the 361 companies was held by other companies.

2.19 The growing trend of institutional shareholdings is also quite visible in India although not to the same extent as in the U.K. According to a survey conducted by the London Stock Exchange, the results of which were released in 1983, 59 per cent of the total of the shareholding (by market value) of the listed companies was with institutions like insurance companies, Unit Trusts, Pension Funds, etc. as against 30 per cent in 1963. In India the development banks and investment institutions account for a sizeable proportion of the shareholdings of the companies that are listed on the Stock Exchanges. The Reserve Bank of India study indicates that in 1978, 27.4 per cent of the shareholding of 121 companies was with the financial institutions compared to 18.8 per cent in 1965.

2.20 Industrial Development Bank of India study quoted earlier also points out that of the total paid-up capital, the holdings of the financial institutions were quite high in respect of the private sector (27.3 per cent). Similarly, the holdings of joint stock companies in private sector (31 per cent) were also quite sizeable. Individual holdings in excess of Rs. 50,000 accounted for 18 per cent of the total paid-up capital of the private sector companies.

2.21 Since investment institutions do not normally emerge as net sellers but as net purchasers of securities every year, the shareholding pattern is getting increasingly tilted in favour of public financial institutions. Moreover, the joint stock companies which are also large shareholders do not part with their holdings in order to maintain their control over the companies promoted/managed by them. Similarly, large investments of individuals are generally made with a view to acquiring/retaining of management control and hence such investments normally do not form part of the "floating stock" in the markets. As a result of these developments, net offering of stock on the markets of most of the shares is getting increasingly depleted, resulting thereby in the lack of adequate availability of floating stock of shares, particularly of well established and well managed companies.

2.22 As for other industrial securities, non-convertible debentures and preference shares were not fancied by the individual investors till recently due to factors such as long term and illiquid nature of such investments, low returns combined with loss of capital following frequent changes in the rates of interest, etc. Such securities were, therefore, mainly taken up by the investment institutions. The picture has changed dramatically in the last four years and debentures have become a major financial instrument for the existing public limited companies to raise resources from the community. These debentures have become popular both with the individuals and the institutional investors, because they offer a package of attractive benefits such as fairly good return of 15 per cent, premium of 5 per cent on redemption, buy-back arrangements after one year, facility for cumulative and non-cumulative payment of interest, etc. apart from security cover and safety of capital. However, preference shares are not yet fancied by individual investors and even by the issuing companies, though the rate of dividend thereon is stepped up to 15% lately. This is because issue of preference shares is a costly mode of raising finance for companies due to tax implications while from the point of individuals, uncertainty of redemption and lack of liquidity are the main deterrents. Preference shares, when issued are essentially fancied by institutional investors.

2.23 There is not yet much of free trading in the market either for debentures or for preference shares as the institutions are not only the main holders of such securities but also keep on buying them from the market due to yield considerations and hold on to them till their redemption. Hence the market for such securities has essentially remained narrow, despite some signs of renewed interest from the individual investors lately. If the ownership pattern of these industrial securities is examined, it would reveal that there is a much more pronounced trend in favour of the institutional holdings in these securities than that noticed in case of equity shares. According to the above mentioned recent study of Industrial Development Bank of India, the Institutional holdings in the case of sample companies were very high both in respect of preference shares (59.2 per cent) and debentures (63.7 per cent).

2.24 It may be noted that the dominant position of institutional investors in the Stock Exchanges is a world-wide phenomenon and not peculiar to our country. The institutional investors, in other countries, are able to impart liquidity and overall stability to the Stock Exchange transactions therein, as they both buy and sell industrial securities and thus keep on replenishing the stock and flow of securities in the markets due to their large number, diversity in character and differences in their objectives. The institutional investors in our country, on the other hand, are small in number and are, as stated earlier, predominantly net buyers of industrial securities. It is true that the Unit Trust of India does sell equity shares, off and on, to book profits on sale on investments, and the development banks also try to sell equity shares, in small lots on a selective basis to recycle their funds, but their selling operations neither augment the availability of securities to any significant extent nor do

they have any significant impact in correcting the overall imbalance and frequent instability witnessed in the Stock Exchanges as the other institutional investors like General Insurance Corporation and its subsidiaries and the Life Insurance Corporation who do not at all sell securities from their portfolios, buy up the securities so offered more often than not. This apart even such selling operations of the institutions are confined only to equity shares and not to other industrial securities like debentures and preference shares which generally remain blocked-up till their redemption in the portfolios of the institutions.

2.25 Necessary steps will, therefore, have to be taken to ensure that the ownership of industrial securities is made more broad-based, stock and flow of tradeable financial instruments in the Stock Exchanges is augmented, the genuine investors turn to the Stock Exchanges in large numbers and the operations of the Stock Exchanges cover more securities and become diversified. There also seems to be an urgent need to re-examine the role of the institutions in the Stock Exchange operations.

#### (d) Membership of the Stock Exchanges

2.26 At present, all the Stock Exchanges put together have 2200 members, out of whom only about 1400 members are active. Despite a tremendous growth in the volume and diversity of business which is estimated at around Rs. 50 crores a day, in the aggregate, for all the Stock Exchanges, there is no significant increase in the number of members to service such business. In fact, most of the Stock Exchanges have imposed the limits on their membership. Besides, there is a strong resistance to admit new members from outside at all the Stock Exchanges. Majority of the existing members are not even properly educated or professionally qualified, have small means, do not have elementary infrastructure facilities like a proper office with a telephone and an educated staff etc. and carry on their business in the traditional way. Some of them do not even know about the Rules, Byelaws and Regulations of the Stock Exchanges or about the provisions of the Securities Contracts (Regulation) Act, 1956 or have any working knowledge or background in finance, accountancy, law business, economics, etc. They are not, therefore, properly equipped to give efficient service or to provide any professional guidance and help to their clients in selection of the investment portfolio according to their preferences. It is recognised that there are a few members who are well equipped, knowledgeable and qualified with sufficient infrastructure to provide efficient service to their clients. They however, constitute hardly 5 per cent of the number of active members of all the Stock Exchanges in the country put together.

2.27 There is no specialised class of jobbers in the Stock Exchanges in the country. Hence, the members act both as brokers and jobbers and do the business only on behalf of their clients but also on their own account. This often leads to conflict of interests and subordination of the clients' interests to their own. Member-brokers also employ authorised assistants/clerks who do business on their behalf. Some of these authorised clerks not only do the business on behalf of the member and their own outside clients, but also do the 'Taravani' business i.e. transactions which are



squared up by the end of the day. Activities of such authorised clerks are alleged to have led at times to disorderly conduct of business and growing discipline at the Stock Exchanges. Their activities, therefore, need to be strictly regulated. Besides, the class of sub-brokers should also be registered with and brought within the discipline of the Stock Exchanges.

2.28 As stated earlier, majority of the members at most of the Stock Exchanges are not well educated and their knowledge is practically limited to the trading aspects of their business. Hence, the question of prescribing minimum educational qualifications, professional expertise and training in the theory and practice of investments will have to be looked into. It may be noted in this connection that except at a few Stock Exchanges, a good library or research facilities or even training facilities for their members do not exist in any other Stock Exchange. It would also be necessary to ensure a wider geographical dispersal of members of the Stock Exchanges in the country. In this context, it will have to be examined whether more efficient and well organised brokerage firms could be allowed to open branches at other centres and in the interior of the country. The question of utilising the services of the agents of Life Insurance Corporation, General Insurance Corporation, Unit Trust of India and National Savings Organisation to tap the savings of the community in semi-urban and rural areas for investment in industrial securities needs also to be examined.

#### (e) Infrastructural facilities

2.29 The fundamental pre-requisite of any smooth, efficient and orderly functioning of the Stock Exchanges is the adequacy of infrastructure facilities. A careful study of the information supplied by the Stock Exchanges reveals that most of them are in dire need of additional space to cater to the requirements of additional staff, growing volume of records, visitors, canteen facilities, trading ring, visitors' galleries, meeting hall, library and research facilities, computer facilities, micro processors, centralised telephone and telex facilities, etc. apart from the requirements to provide more space to the existing members and new space to the new members. As the question of the increase in the number of members to take care of the growing volume of business and of providing necessary facilities to them will demand topmost priority, they will have to be tackled expeditiously. The problem of the Bombay Stock Exchange is a complex one and has a number of dimensions which will have to be looked into. Given the inadequacy of resources, majority of the Stock Exchanges have also not taken interest in establishing investment research cells, providing suitable library facilities for the benefit of their members and investors, publishing suitable literature for educating and guiding investors in their investment decisions. Even when some publications are brought out they are mainly of a statistical nature and are so priced with an eye to augmenting their income, that they are not of the reach of small and middle class investors. No Stock Exchange has considered publication of any low priced pamphlets or leaflets in regional language, necessary for explaining in simple words the essential characteristics of different classes of securities, trading practices of the Stock

Exchanges, remedies available to the investors and how they should proceed in the event of their having any complaints against the member-brokers.

2.30 Apart from finding a solution to the infrastructural problems of each of the Stock Exchanges, it is also desirable that major Stock Exchanges, if not all, should be linked through appropriate telecommunication network or micro-wave links or satellite connections, so that there is a free flow of information among the Stock Exchanges quotation of prices of securities on different Stock Exchanges are available simultaneously to all the Stock Exchanges that are linked to a national hook-up and better co-ordination of trading practices of the Exchanges is established.

2.31 The question of finding ways and means to strengthen the resource base of Stock Exchanges will have therefore, to be examined on a priority basis so that the Stock Exchanges are enabled to provide essential infrastructural facilities to the stockbrokers for making trading on Stock Exchanges both efficient and highly integrated and in providing better services to the investing public. It may be necessary to take the help of the State Governments financial institutions and commercial banks for the purpose.

#### (f) Organisation and Management of the Stock Exchanges

2.32 There are 14 Stock Exchanges in the country, the major ones being at Bombay, Delhi, Calcutta, Madras and Ahmedabad. Those that were established prior to 1937 are associations of individuals while those established later are incorporated either as companies limited by shares or by guarantee. Each one of them have their own Rules, Regulations and By-laws which are approved by the Government. All of them are regulated on an all-India basis by the Securities Contracts (Regulation) Act, 1956 and the Securities Contracts (Regulation) Rules, 1957.

2.33 Diversity of organisation structures of the Stock Exchanges is by itself not an undesirable proposition provided all of them are imbued with necessary sense and direction of purpose and do not become obstacles, due to their inbuilt deficiencies, in the path of reforms. It is only from this angle that the justification or otherwise of the practice of allowing different forms of organisation for the Stock Exchanges in the country will have to be examined. It is noticed from experience that, irrespective of the form of organisation, the security business in the country has tended to be in the hands of a few families of stockbrokers whose actions are primarily governed by the need to protect their own interests and bereft of the interests of the investing public and even obstruct the attempts of the Government aimed at making the Stock Exchanges efficient instruments for mobilising savings of the community for national development and for rendering prompt and efficient service to the growing body of investors in the country through their smooth and orderly functioning.

2.34 It may be stated in this connection, that there is a growing feeling in the country that if a

uniform organisational structure is evolved with uniform rules for the governance of the Stock Exchanges, with precise demarcation of powers, duties and responsibilities of the office-bearers and supported by a uniform code of ethics for their members it would serve the purpose better. Opinions are also expressed that, in the alternative, establishment of more than one Stock Exchange with uniform Rules, Byelaws and Regulations at the major centres will lead to a competitive environment which will tone up their administration and operational efficiency without unduly upsetting the present organisation set-up of the existing Stock Exchanges in the country.

2.35 The management of the Stock Exchanges is vested in the Governing Body differently known as Governing Board|Board of Directors|Council of Management, etc. These Boards consist of elected members, members nominated by the Government and public representatives. However, in actual functioning they are dominated by stockbrokers. Matters of the Stock Exchanges are, therefore, largely left to the decision of the stock broker members of the Governing Bodies. There is a considerable disillusionment in the country with the functioning of the Governing Bodies. It is alleged that most of the stockbrokers have vested interest in maintaining the status quo as they have their own self-interest to protect. They also at times subordinate the interests of the genuine investors to those of the stockbrokers. Some of them are even alleged to have misused their position of trust for personal gains. They often fail to take disciplinary actions against erring members and allow crisis situations to develop in the Stock Exchanges by neglecting to take timely action to curb excessive speculation. The measures which they adopt, at times, for regulating business are either half-hearted or not implemented rigorously. They have not taken concrete steps or even made conscious efforts for the planning and development of the securities business in the country, creation of facilities for investment research and analysis and for dissemination of investment information and cultivation of investment habits among the general public or for streamlining the operations of the Stock Exchanges through adoption of modern methods of management to improve the overall efficiency of the Stock Exchanges. The question has to be examined whether the Governing Bodies of the Stock Exchanges should be reorganised to give representations to other interests which are also vitally concerned in the healthy functioning of the Stock Exchanges and which can bring fresh outlook, vision and professionalism to bear on the problems facing the Stock Exchanges.

2.36. At present the working of the Stock Exchanges is supervised and controlled by the Stock Exchange Division of the Department of Economic Affairs, Ministry of Finance, Government of India. The Stock Exchanges are under the administrative control of the Joint Secretary (Investments) who is also the Controller of Capital Issues. He is assisted in his work, by a complement of staff headed by a Joint Director. This Stock Exchange Division has field offices at Bombay and Calcutta headed by Deputy Directors. The work relating to and regulation of Stock

Exchanges has not only increased substantially due to the growth in the number of Stock Exchanges, listed companies and investors but has also become more complex and intricate on account of the fast changing scenario in the securities industry in India. This may call for strengthening of the Stock Exchange Division in order to enable it to cope up with the increased volume of work and to re-orient itself to the tasks ahead. There is a school of thought which believes that a separate apex authority should be established at the national level to monitor, oversee and regulate the working of the Stock Exchanges in place of the existing machinery. This question will have to be examined.

#### (g) Functioning of the Primary|New Issues Market

2.37 Capital market in any country functions basically through the institutional framework of Stock Exchanges and it is the Stock Exchanges which establish a link, through their primary market functions, between corporate units and investors and through their secondary market functions, between sellers and purchasers of securities. Primary markets are, in turn, a perennial source of supply of industrial securities for the secondary markets, while secondary markets act for the primary markets as a source of strength when buoyant and a cause for despondency when depressed. The corporate sector resorts to the primary market for initial issues or capital in case of new companies and for further issues of capital in case of existing companies for their needs of industrial finance.

2.38 Some of the special features of the primary market in our country are as under :

- (i) The over-whelming majority of the new companies come to tap the primary market for their capital requirements well before commencement of commercial production. There are no special issue houses, as in the UK, or investment bankers, as in the USA, in our country which provide the entire integrated package of services in the primary market in respect of new issues such as their thorough investigation and analysis, underwriting and retail distribution through the stock brokers or security dealers on behalf of the underwriters. In case of the USA and the UK, the issues are also seasoned before they are offered to the public by the underwriters.
- (ii) The alternative choices of investment instruments which the new companies offer to the investing public are normally limited to equity shares only, the issue of debentures and preference shares being ruled out in their case for want of investors' response and other factors. The gestation period for rewarding the investors in the case of these companies being rather long, the investors have to go without any income by way of dividends and have also to suffer, in majority of cases, by way of depreciation in the value of their investments. This generally dampens the psychology of investors and makes them reluctant to invest in these companies.

On the other hand, the existing companies prefer to issue debentures or preference shares, mainly for the investment institutions. Even when equity issues are made by them, they are mostly by way of right issues. The reluctance to offer equity shares to the general public by the existing managements is largely due to the fear of dilution of their capital, apprehensions about the probable loss of control over the companies, etc.

Issue of preference shares to the general public is a costly proposition for companies as dividends on such issues are from post-tax profits and investors' response to such issues is also poor because of illiquidity, uncertainty about redemption, etc. Such companies, therefore, prefer to issue debentures where the interest payments are from pre-tax profits. Even here, till 1979, the market for debentures was practically non-existent. It was only after 1979 that the debenture issues became popular because of various policy measures adopted by the Government to liberalise the terms of issue of debentures and offer of incentives to activate the debenture market. However, even in this field, the initial burst of enthusiasm to the issue of convertible debentures which evoked favourable response from the investing public, has evaporated again mainly because of the fear of the dilution of equity capital as a result of conversion of debentures into equities and consequent fear of loss of control of management. Increasing reliance is, therefore, placed by the existing companies on non-convertible debenture issues for raising resources from the general public for their capital needs. It is revealed, from the following trend analysis in securities of the public limited companies listed on the Stock Exchanges during the last one and half decade or so, that the amount of equity listed on the Stock Exchanges has not increased as rapidly as that of the debentures. The paid-up value of equity listed on the Bombay Stock Exchange increased from Rs. 853 crores as at the end of 1970 to Rs. 2114 crores as at end 1980, while the debenture stock increased sharply from Rs. 141 crores to Rs. 671 crores during the same period. Thus, during the period 1979-80, while equity stock increased by 148 per cent, debenture stock increased by 376 per cent. During the next four years upto December 1984, the equity stock increased only by about 57.6 per cent to Rs. 3331 crores while the debenture stock increased by 253.2 per cent to Rs. 2370 crores. The ratio of outstanding stocks of equity to debentures listed on the Bombay Stock Exchange declined continually from 9:1 as at end 1961 to 6:1 by end 1970, 3:1 by end 1980 and further to 1.4:1 by end 1984 (Table No. 4). During 1983-84, the debenture issues continued to dominate the market as indicated by the fact that nearly two-thirds of the amount of capital raised from the market was through the issues of debentures. Of the debenture issues during the last four years, the share of convertible debenture issues declined from 71 per cent in 1981-82 to 31 per cent in 1982-83 and further to 8.5 per cent in 1983-84. (Source : Industrial Development Bank of India).

- (ii) The All-India Development Financial Institutions (AIDFIs) carry out detailed appraisals of the new projects from the technical, financial, economic and legal angles, whenever entrepreneurs approach them for financing such projects. However, such appraisals are essentially finance-oriented and are not available for scrutiny by the investors. Such detailed appraisals are not yet carried out either by other investment institutions or by most of the merchant bankers and other financial consultancy agencies.
- (iv) The public issues of capital are underwritten by All-India and State-level Development and Investment Institutions (AISLDIIs), commercial banks, stockbrokers etc. However, the major support for the primary market to survive has come from the AISLDIIs. For example, in 1970-71 the share of AISLDIIs in the underwriting of equity and preference shares and debentures was 63 per cent and 74 per cent respectively while in 1982-83 it was 54 per cent and 27 per cent respectively. Correspondingly, the share of the stockbrokers and the banks has gone up. The underwriting of the issues done by the AISLDIIs differs in character in case of Development and Investment Institutions and among Investment Institutions inter se. The Development Institutions underwrite the issues as a part of their financing of the projects and their underwriting is normally secondary and limited in nature. They do not also canvass for the issues or do any retail distribution of the issues, although they do offer sub-underwriting arrangements to the brokers. The Investment Institutions like the Life Insurance Corporation and the General Insurance Corporation and its subsidiaries underwrite the issues to the extent of their investment mainly to reduce their book value. Only the Unit Trust of India can underwrite the issues as part of its business but it is not active in the underwriting of new issues as it cannot afford to lose income or suffer depreciation on its investment as it has to service its unit-holders. On the other hand, the underwriting of the issues by the stockbrokers and bankers is of a placement character and is done mainly to earn some income or the patronage of the clients. Both the stockbrokers and the banks normally have buy-back arrangements with the promoters to take over the underwriting liability which may devolve on them. However, some of the bankers do retain some issues in their portfolio.

The extent of underwriting of the public issues which the management must arrange is mainly decided by the Controller of Capital issues and the financial institutions even though it is not compulsory for any com-

pany under any statute to get its issue underwritten, either fully or partly when it makes a public issue of capital.

The rates of underwriting commission and brokerage are fixed by the Stock Exchange Division and are not determined by the competitive market forces. They become, in fact, the ruling rates to be paid by the entrepreneurs in a majority of cases.

(v) When a company tries to raise capital from the public in excess of Rs. 50 lacs (limit raised to Rs. 1 crore recently) it has to obtain the consent of the Controller of Capital Issues under the Capital Issues Control Act, 1947. The Controller of Capital Issues decides on the type and quantum of issues, the share of promoters and others, the amount to be offered to the public and the price at which the issue shall be offered to the public, particularly in cases of disinvestment of share-holding by either collaborators or the existing management, under writing arrangements, etc.

(vi) The infrastructure of the primary market is now fairly diversified. Besides the AISLDIs, quite a few merchant bankers, investment and consultancy agencies, registrars to the issue, etc. have come into existence in the last few years to fill in the structural gaps in the primary markets and offer a wide variety of sophisticated services to the entrepreneurs in connection with their public issues of capital, such as the preparation and issue of prospectus, obtaining the various approvals of the concerned authorities, making arrangements for underwriting and marketing of the issue, processing of applications till the final stage of allotment of securities, issue of certificates and refund of moneys. The fees of such managers to the issue are fixed by the Stock Exchange Division.

Increasing facilities for underwriting and availability of specialised services in managing and marketing of public issues have raised the level of efficiency of the primary market and increased its capacity to absorb the new issues.

(vii) There is a multiplicity of agencies such as Stock Exchanges, registrars of companies, financial institutions, etc. which have to approve the prospectus. Even different Stock Exchanges have to be approached for approval of listing applications. The concept of single-window clearance in case of the primary market is yet to be adopted.

(viii) With a number of new issues coming to the market often simultaneously and the increasing number of applications being received in case of each public issue of

capital, registrars to the issues have computerised their operations to expedite the processing of applications, refund of excess application moneys and issue of certificates. However, in the absence of close monitoring, follow-up and coordination of the work of different agencies involved by the companies concerned, there is still a considerable time lag between the receipt of applications and allotment of securities/refund of excess application moneys to the applicants.

(ix) In order to ensure wider dispersal of ownership and to spread the cult of equity, the minimum allotment of shares in case of public issues of capital fixed by the Stock Exchanges is kept low while maximum allotment is restricted. In case of over-subscription of public issues of capital also, weightage is given to applicants in lower categories.

(x) Yet another distinctive feature of the new issues market, of late, is the aggressive salesmanship through catchy advertisements and publication of glossy literature by the promoters and merchant bankers/financial consultancy agencies to elicit maximum response to the new issues of capital from the public. However, the response to the new issues is still largely concentrated in only limited geographical areas as indicated earlier in Page 14.

(xi) It is noticed that despite the growing interest of the investors in most parts of the country in the new issue market no proper infrastructure exists in marketing the new issues of capital in the interior of the country although some of the enterprising stock-brokers and managers to the public issues of capital have created a network of agents in semi-urban areas. The investors in such interior places do not receive any advance information about the forthcoming public issues nor any guidance for selection of issues to invest in, etc. They do not even get the application forms in time and in some places they have to pay heavy premium to the persons who manage to obtain such application forms.

(xii) The primary market has witnessed many vicissitude in its chequered history since Independence and raising of resources, through its medium, has not always been easy. Its average contribution to the financing of the industrial growth in the country was less than Rs. 20 crores per year during the First Plan period and even during 1970-71 to 1979-80 it was not more than Rs. 58 crores, on an average (Table No. 7). These figures do not include right issues. However, the conditions in the primary market were definitely better from 1971 onwards as compared to the earlier period from 1961 to 1970.

The number of companies which tapped the market for capital through prospectus went up from 64 in 1970-71 to 756 in 1983-84, while the amount mobilised through the issue of equity and preference shares and debentures went up from Rs. 51.12 crores in 1970-71 to Rs. 453.25 crores in 1981-82, Rs. 427.86 crores in 1982-83, Rs. 322.21 crores in 1983-84 and to Rs. 367.25 crores in 1984-85. From the available data since 1976-77 onwards it is also noticed that while 38 per cent of equity issues were undersubscribed (33 out of 87) in 1976-77, the unsubscribed equity issue went down to 9.6 per cent in 1982-83 (52 out of 543). In case of preference shares, the number of issues went down from 23 in 1976-77 to 2 in 1982-83, while 65 per cent of the issues (15 out of 23) were undersubscribed in 1976-77. In case of debentures the number of issues was 4 in 1976-77 while it was 39 in 1981-82 and 22 in 1982-83. 25 per cent of the issues were undersubscribed in 1976-77 (1 out of 4) while in 1981-82 and 1982-83 the percentage of issues undersubscribed was 25.6 per cent and 13.6 per cent respectively (Table No. 8).

However, it is only since 1978 that the primary market has displayed signs of inherent strength and resilience and has witnessed a considerable build-up in the tempo of its activity, triggered mainly by a spate of attractive Foreign Exchange and Regulation Act issues. There has been, during this period, an increasing reliance of the private corporate sector on the primary market for its needs of capital and as a consequence thereof, a substantial increase in the number of issues offered to the public for subscription which was met with an encouraging response from the investing public leading to over-subscription of issues in a number of cases.

The tempo in the new issue market is also sustained during the period by considerable buoyancy in the secondary market for existing securities. Aggressive salesmanship in marketing of new issues by the promoters and merchant bankers and financial and investment consultancy agencies, suitable revisions in fiscal and monetary policies of the Government to activate the new issues market, the overall satisfactory performance of the economy, etc. have also helped in the matter. As a result, more and more investors are taking keen interest in the new issues and investment habits and consciousness are slowly trickling into the interior of the country opening up a tremendous potential of savings, awaiting to be tapped. While, this is a heartening development certain disturbing trends have also emerged at the same time. A very unhealthy development in the functioning of the new issues market

is that even before the issues open for subscription unofficial transactions take place therein and the premia on most of the new issues are rigged up by cornering of shares and manipulation of rates by the promoters and other interested groups, to entice the unwary investors to invest in such issues and get them over-subscribed. It is alleged that some of the stockbrokers and even the managers to the issue actively help the promoters and other operators in this regard. Such transactions, being void, are recorded only in the private notebooks of the brokers and are converted into regular brokers' contracts only after the issues gets listed. Similarly some of the promoters try to paint unduly rosy picture through glossy brochures and press handouts promising a better return and capital appreciation in the near future and offer the shares to the investors by way of private placement from their promoters' quota before the issues open for public subscription. After the closure of the subscription lists the promoters and other interested parties themselves, often, offload the shares with a result that by the time the issues are listed on the Stock Exchanges, premia come down sharply and even disappear leading to a considerable losses for the investors and their disenchantment with the new issues. It is common knowledge that heavy unofficial trading in these issues takes place outside Bombay at places like Jaipur, Jodhpur, Baroda, Rajkot, Delhi, Ahmedabad, Anand, Ludhiana, Kanpur, Broach etc. Dealers in such centres have close links with their counterparts in Bombay. This unhealthy development is detrimental to the interest of the genuine investors.

(xiii) Yet another development detrimental to the healthy functioning of the primary market is the "kickbacks" offered by stockbrokers in the form of an incentive or brokerage, in cash or in kind, on their behalf and on behalf of the promoters or company managements to lure investors to apply for issues of capital and mostly issues of non-convertible debentures. Such "kickback", particularly, in the form of offers of shares from the promoters' quota has been frowned upon by the Government and the Stock Exchanges have been directed to put a stop to this evil practice which, apart from leading to distortion in the prevailing interest rates structure, leads to host of other malpractices in the Stock Exchanges.

(xiv) An analysis of the new issues listed on the Stock Exchanges reveals that majority of the new issues of shares are quoted at a discount. This means that, in case, the new investor is not in a position to offload the shares in time to take advantage of the premiums on such shares which are artificially manipulated, as stated earlier, he stands to lose when he wants to sell the shares allotted to

him and, perforce, has to retain the same in his portfolio for a considerable period of time without any return and at heavy depreciation.

- (xv) Another disturbing feature of the new issues is the high cost of new issues. Efficiency of the primary market depends on its ability to keep to the minimum the cost of public issues of capital. The cost of public issue of capital in India is sometimes as high as 15 per cent to 20 per cent and in some extreme cases even 34 per cent of the amount of the public issue. These costs are certainly exorbitant from the point of view of the corporate sector. Moreover, they impose an avoidable waste on the scarce resources of the community, apart from creating unnecessary impediments in the healthy growth of the capital market. Even on the basis of conservative estimates of, on an average, 10 per cent costs of public issue, raising capital of Rs. 2,000 crores in a year would imply incurring issue expenses to the tune of Rs. 200 crores. Companies issuing capital may therefore, find it more convenient to raise loans from institutions and banks rather than have resort to the new issues market, thus frustrating the attempts to induce companies to tap the savings of the household sector directly.

Another important social aspect of these costs is that they generate large, to some extent fortuitous, income to a limited number of people who, quite often, are providing routine services in raising capital from the market.

If the Stock Exchanges are to emerge as efficient intermediaries in helping corporate units to raise capital from the public, the imperfections and rigidities of the primary market that result in inflated public issue expenses shall have to be corrected. Questions such as extent of underwriting of public issues, prescription of appropriate rates of underwriting commission and brokerage, need to appoint a number of agencies for the management of issues and their remuneration, etc. will have also to be examined.

Just as minimisation of costs of public issues of capital would encourage the corporate sector to rely on the capital market for its growing resource requirements, reducing to the minimum, the time-lag between receipt of applications for securities and despatch of allotment letters/refund orders would also encourage investors to participate in these issues. There is an inordinate delay involved from the stage of receipt of applications till the despatch of allotment letters and refund orders. During this period, application moneys are blocked and applicants are not sure whether they

would be getting any allotment whenever issues are over-subscribed. If in the meanwhile another good issue comes in the market many of the investors would not be able to apply to this issue as their investible resources remain locked up in the issue for which they had applied earlier. Uncertainty of allotment coupled with blocking of funds for a long period is creating frustration in the minds of several investors. Investors are also unhappy about the fact that the blocked amounts do not fetch any return to them.

The total time-lag involved in the application and allotment process of securities shall have, therefore, to be minimised for keeping investors' interest sustained in the primary market for corporate securities. For this purpose, some innovative procedures may have to be adopted for minimising the time involved in the receipt and despatch of applications and also in issuing letters/refund orders to the applicants.

2.39 It would, therefore, be necessary to look into all these questions in depth and also to devise ways and means whereby the growing volume of new issues can be handled effectively by streamlining the procedures and practices in the processing of applications and in the management of such issues.

2.40 As has been stated earlier a number of agencies have come into existence offering various types of services in connection with the new issues of capital. However, their activities are neither governed by any self-imposed code of conduct or by any special legislation. The question of bringing such agencies within the framework of a legislative discipline for the smooth and healthy functioning of the primary market will also have to be examined.

#### (h) Secondary Markets

2.41 The success in mobilising the resources of the household sector, through the medium of new issues market, for the planned economic development of the country depends essentially on the healthy functioning of the secondary market. The basic function of the secondary market is to provide liquidity, transferability and price continuity so that investors can freely buy and sell securities with ease.

2.42 With the increasing number of issues of capital offered to the public, more and more securities are being listed on the Stock Exchanges. Correspondingly, there will be a significant increase in the number of investors who will require the Stock Exchanges to provide them with a safe and effective mechanism to buy and sell the securities and to protect their interests. Stock Exchanges have thus come to occupy an important place in the national economy. They have, therefore, to function in an efficient and systematic manner fully enjoying the confidence of the investors.

2.43 Anyone who comes to the Stock Exchange to buy and sell shares has to put through his transac-



tions through a stockbroker who enters into contract with him on the following four basis :

- (1) "Spot delivery" transactions where deliveries and payments are effected on the same day or the next day ;
- (2) "Hand delivery" transaction which are to be settled within 14 days. The Governing Boards are, however, allowed to extend the time for a further period of 14 days subject to an overall period of 90 days from the date of contract in the case of shares designated as "specified shares" ;
- (3) Transactions for "clearing" which are cleared for delivery and payment through a clearing house ; and
- (4) "Special delivery" transactions wherein delivery and payments are made within the time beyond 14 days as may be stipulated while entering into the bargain and permitted by the Governing Body/Executive Director/President.

2.44 Almost all the transactions take place in the category of hand delivery transactions wherein a maximum period for deliveries and payments is fixed at 90 days for "specified shares". The trading in specified shares is akin to that transactions for "clearing" wherein no limitation of period is prescribed for effecting deliveries and payments. This is because the limitation of 90 days prescribed for delivery and payments for specified shares is illusory as technically the transactions can be carried forward by the issue of fresh contracts beyond this period also. Thus, trading for the "clearing" which was banned in 1969 takes place through "specified shares". The Stock Exchange Authorities fix making up prices at the turn of settlement period of 14 days and, thus, allow the parties facilities to pay the differences in prices at the end of each settlement period and carry forward their transactions to the next settlement.

2.45 The pattern of trading in hand delivery contracts is, however, not uniform at all the Stock Exchanges.

2.46 The present functioning of the secondary market for existing securities leaves much to be desired. It is estimated that about 90 per cent. of the transactions which take place in "specified shares" are settled through payment of differences without taking or giving delivery of shares. Only in respect of 10 per cent of the transactions, actual deliveries of shares take place. Further, even as regards the actual deliveries, only about 20 per cent to 30 per cent of them are in the nature of genuine deliveries, the rest merely relating to carry forward ("badla") transactions. The transactions which are squared up daily or on a fortnightly basis before settlements are at times not reported to the Stock Exchanges.

2.47 Forward trading, properly regulated, is necessary for imparting necessary liquidity and price continuity in shares. However, in the conditions prevailing in some of our markets, this often results in excessive speculation, leading to frequent payment crisis, disruption of market activities, defaults of stockbrokers and creation of a feeling of instability and uncertainty in the minds of the genuine investors shaking thereby their confidence and faith in the institution of the Stock Exchanges.

2.48 The major factors which have contributed a great deal to excessive speculation witnessed in the Stock Exchanges in our country in the last few years are :—

- (1) the extreme narrowness of the markets resulting in shortage or non-availability of adequate floating stock of good scrips and frequent violent fluctuations in share prices ;
- (2) speculative trading by stockbrokers on their own account and concealment of its volume from the Stock Exchange Authorities ;
- (3) considerable insider trading ;
- (4) option and kerb trading indulged in by the stockbrokers ;
- (5) large-scale rigging and manipulation of the markets by a few outside operators who are not subject to the discipline of the Stock Exchanges ;
- (6) role played by outside money to finance carry-forward transactions and for lifting of deliveries of scrips at the turn of each settlement
- (7) infirmities in present bye-laws, regulations and procedures ;
- (8) lack of effective machinery for scrutinising of the reported transactions, monitoring and audit machinery etc.
- (9) ineffectiveness and inability of the governing bodies to manage crisis situations ;
- (10) Other factors aiding speculative activities such as lack of adequate publicity by companies, lack of coordination and pursuit of common policies by the Stock Exchanges, hours of trading etc.

Lately excessive trading in shares which are yet to be listed and excessive speculative transactions even in "non-specified" securities have become a marked feature of trading on the Stock Exchanges.

2.49 The following aspects of the questions relating to excessive speculation will have to be dealt with :

- (1) perfecting the reporting systems and improving their quality to feel the pulse of the markets and obtaining, advance signals of overtrading or impending crisis ;
- (2) closer monitoring and supervision of the market operations to detect the subtle ways and techniques used by the operators to distribute their business among various brokers in the same market or in different markets to avoid scrutiny ;
- (3) tightening up of the audit machinery ;
- (4) making certain malpractices such as kerb trading, rigging up of prices, creating false markets, insider trading etc. cognisable offences ;
- (5) bringing about changes in the composition, policies and practices of the Governing Bodies of the Stock Exchanges ;
- (6) reviewing the Rules, Bye-laws and Regulations of the Stock Exchanges with a view to curbing speculation more effectively and protecting the interests of the genuine investors ;
- (7) improving the overall liquidity of the markets, ensuring better transferability and negotiability of securities and augmenting the supply of securities ;
- (8) examining closely the present machinery and techniques used to regulate and control speculation and finding out the adequacy or otherwise of the practices relating to fixation of standard making-up prices for both buyers and sellers of securities at the end of each settlement, imposition of ad-hoc margins and daily margins, etc.

50. Lack of liquidity in a number of securities listed on the Stock Exchanges is another major problem confronting the investors. A recent analysis of the frequency of transactions in equity shares on major Stock Exchanges reveals that out of 3401 companies listed on the Stock Exchanges in "A" and "B" group of shares, (i) shares of 959 companies were traded once a year; (ii) shares of 954 companies were traded once a month; (iii) shares of 396 companies were traded once a fortnight, (iv) shares of 538 companies were traded once a week; and (v) shares of 207 companies were traded daily (Table No. 9). It may be coincidental that equity shares of about 200 companies figure in "specified lists" where settlement trading takes place. On the basis of an analysis of the transactions in "non-specified" shares cash scrips on the Bombay Stock Exchange (where about 60 per cent of the volume of trading in the country takes place) it was noticed that during June to August 1984 nearly 50 per cent of the scrips were not traded at all, while 30 per cent of the scrips were traded only on 50 per cent of the trading days (Table No. 10).

2.51 Lack of liquidity in a number of shares listed on the Stock Exchanges is also due to the fact that in quite a few companies, which are listed on the Stock Exchanges to enjoy tax benefits, the number of shareholders is limited and floating stock of shares is also not much. Yet another reason is the concentration of listed scrips on a few Stock Exchanges. Lack of liquidity is equally linked up with the question of performance of companies and their rating in the eyes of the investors. In case of newly listed companies, due to long gestation period, bad management, faulty planning, lack of availability of raw materials and components as planned, infrastructural problems, hostile competitive environment not anticipated, etc., most of them are not in a position to produce satisfactory results and do not, therefore, declare dividends. Even existing companies in production are not able to pay dividends due to factors like lack of demand for products, power cuts, industrial relations, bad managements, squeezing of margins of profits on account of rise in costs, etc. A recent analysis made on the basis of annual reports of the Stock Exchanges reveals that out of 5044 companies as many as 3519 companies skipped dividends and 453 paid dividends upto 10 per cent. Yet another analysis of 460 new companies listed since 1979 shows that no quotations were available in case of shares of 116 companies, while shares of 246 companies were quoted at a discount and shares of 29 companies were quoted at a nominal premium of 10 per cent (Table No. 11). Some of the new and existing companies even turn sick and the investors lose their capital.

2.52 Apart from the above factors leading to growing liquidity in the markets, a number of shareholders who hold shares in lots other than the marketable lots (odd lots) are not able to sell the same easily in the market. Trading in such shares does not take place on a regular basis and the holders of such shares have to make distress sales in times of urgent need of funds and sometimes they are just not able to sell such shares for months together even at a heavy discount.

2.53 Similarly the procedures for transfer of shares and the use of dated transfer deeds as prescribed under Section 108 of the Companies Act, 1956 for effecting the transfer of shares from the name of one shareholder to that of the other, in the books of the company, has contributed a great deal to the problem of growing illiquidity in the markets.

2.54 The dated transfer deeds used for transfer of shares have, at present, a validity period of two months or till the book closures of the companies concerned whichever is later. The system of using blank transfer forms was discontinued for curbing speculative activity in shares and for preventing the use of unaccounted money in share transactions. The use of dated transfer deeds have created numerous problems, particularly, from the time the investors from the upcountry centres semi urban and rural areas have started taking greater interest in the capital market. The time prescribed for the validity of the transfer deeds is considered to be too short and



insufficient. It is reported that the cupboards of stock-brokers are full with certificates with time barred and invalid transfer deeds, affecting the rights of the buyers of shares represented by such transfer deeds.

2.55 It may be mentioned that there is practically no liquidity for the holders of preference shares and same is the position in case of old debentures without buy-back arrangements.

2.56 Yet another factor affecting the liquidity of shares and debentures listed on the Stock Exchanges is the closure of the Stock Exchanges due to number of holidays observed, settlement periods, suspension of business on account of labour unrest or to clear backlog of work, etc. It is estimated that majority of the Stock Exchanges remain closed for nearly 40 per cent to 50 per cent of the days in a year and even when they are open, they are open for limited hours (earlier two hours, now 3 hours a day) a day when all over the world the Stock Exchanges are aiming at round-the-clock trading for 24 hours.

2.57 The problem of excessive speculation in the Stock Exchanges in a few shares on the one hand and the growing illiquidity in a majority of shares on the other, have tended to create an environment which is not conducive to the healthy growth of the Stock Exchanges and is such as to scare away genuine investors. Steps will have, therefore, to be taken on an urgent basis to correct the situation.

2.58 It is reported that the method of reporting market quotations of securities is not satisfactory. It is also alleged that there is considerable manipulation of quotations to suit the purposes of certain stock-brokers and outside operators whose position in option business largely depends on the closing quotations. It is understood that by the time market closes, some of the stockbrokers rush to the floor superintendent or the representative appointed by the Stock Exchanges to supervise and record market quotations and request him to record closing quotation on the basis of fictitious transactions in small marketable lots. It is alleged that some of the floor superintendents represent themselves connive at and abet these malpractices. Suitable steps will have to be taken to ensure that all quotations of securities reflect genuine transactions and manipulation by interested parties is avoided.

2.59 All the Stock Exchanges also face the problem of a growing volume of business, both in respect of "specified" and "non-specified" shares. More and more companies are being listed on the Stock Exchanges and their securities also come in for trading on the Exchanges. In 1984, the volume of turnover on the Bombay Stock Exchange alone was of the order of Rs. 4400 crores with securities worth about Rs. 440 crores resulting in actual deliveries. It is reported that the volume of turnover on the said Exchange is currently of the order of Rs. 6000 crores with about 800 lakh securities worth about Rs. 1000 crores changing hands by way of delivery of both

specified and non-specified shares. Taking all the 14 Stock Exchanges together, the deliveries in a year could well be around 1600 lakh securities worth around Rs. 2000 crores, apart from business done at moffussil centres where there are no Stock Exchanges. As against this, all Stock Exchanges, put together do not have more than active 1400 members, at present, most of whom do not have the necessary wehre withal to service properly their clients. It is, therefore, not surprising that the stockbrokers are not able to cope up with the increased volume of work. There is also considerable deterioration in the quality of services rendered by them.

2.60 With a view to preventing the present system soon breaking down under the sheer weight of the anticipated fast growing volume of business and for making the markets safe for genuine investors, the question relating to (i) the reorganisation of the Stock Exchanges; (ii) increase in the number of members by admitting knowledgeable, resourceful and organisationally more competent persons with right attitudes, behaviour and outlook; (iii) simplification and rationalisation of the antiquated system, procedures and traditional methods of conducting business; and (iv) steps to be taken to improve operational efficiency, managerial effectiveness and infra-structural facilities will have to be examined.

2.61 The different Stock Exchanges in the country follow their own practices relation to settlement procedures, fixing dates of ex-right, ex-bonus or ex-dividend transactions, etc. This leads to considerable inconvenience to the investors, offers opportunities for speculators to hide their speculative positions in different markets by switching their deals from one market to the other and take advantage of arbitrage and makes it difficult for any one Stock Exchange to check excessive speculative activity. There are also no proper communication facilities—both internal and inter-market—among the Stock Exchanges nor are there facilities for transmitting quick information from one market to the other and between the offices of the stockbrokers and their correspondent or outstation outlets at different places in the country about the prices prevailing on different Stock Exchanges, such as electronic quotation boards, latest working results of the companies in different areas, etc.

2.62 The question of integrating the market at the national level and pursuit of common policies in the spheres indicated above, will have to be looked into turn the Stock Exchanges into efficient financial intermediaries.

2.63 The Stock Exchanges in the country have also done precious little in spreading the message of investment to the rural side.

2.64 With the growing number of genuine investors, solution of the problems they face when they deal in securities will demand urgent attention of the Stock Exchange authorities. The present Rules, By-laws and Regulations of the Stock Exchanges pertaining to investors, protection are not satisfactory. The

investors have numerous complaints. Majority of investors are not even aware of the existence of Defaults Committees or the Arbitration Committees of the Stock Exchanges. Even here complaints are made that either the investors do not get justice at all or when they do get justice, it is so delayed that it is as good as denied. These Committees are composed solely of member brokers and it is likely that there may be some truth in the matter. The question of reorganising such Committees and expediting their decision making process and protecting the interests of the investors will have to be considered. There is also no satisfactory machinery, at present, to deal with other types of complaints of the investors. Recently, the Standing Committee of the Presidents of the Stock Exchanges decided that each Stock Exchange should have a Grievance Cell. This is a move in right direction and such Grievance Cells should be established urgently in all the Stock Exchanges.

2.65 Similarly, no other Stock Exchange of the country other than that at Madras has established any fund for the protection of the investors. There are also no gratuity funds for the stockbrokers. No insurance schemes for the protection of stockbrokers as well as their clients exist. Such questions will have to be examined.

2.66 The way in which the Stock Exchanges should be involved more actively in the process of changing their character and role for the benefit of the genuine investors and their members themselves will have to be explored.

2.67 The general functioning of the Stock Exchanges in the country is not satisfactory. The Stock Exchanges are generally regarded to be relatively unsafe for the average class of investors. Many of the investors who have recently developed investment interest in industrial securities are afraid of the excessive speculative activity and consequent sharp fluctuations in the share prices and view them with suspicion. The Stock Exchanges are, therefore, yet to gain respectability among the investors in the country and enjoy their full confidence.

2.68 It may be mentioned, in this connection, that the functioning of the Stock Exchanges is closely linked with the environment in which they function, the clarity of perceptions on the part of the management of the Stock Exchanges about the role and objectives expected to be fulfilled, the calibre, competence, and awareness of their responsibility to the investing public on the part of stock brokers, attitude of the Government towards the Stock Exchanges etc. Nevertheless, it is axiomatic that Stock Exchanges have to play their due role in the national economy, they have to put their house in order and improve their method of functioning and behave in a more disciplined and orderly manner.

2.69 These and other related issues concerning the functioning of the institution of Stock Exchange as an integral part of the financial system of the country are examined, in greater detail, in the subsequent chapters of this Report.



## CHAPTER : 3

### ORGANISATION AND MANAGEMENT OF THE STOCK EXCHANGES

#### SECTION-I : AN OVERVIEW

3.1 The Stock Exchanges have been functioning in the country for more than a century now. The first stock exchange was established at Bombay in the year 1875, followed by the one at Ahmedabad in 1894 and the other at Calcutta in 1908. Thereafter, between 1930 and 1957, many more Stock Exchanges came into existence at Indore (1930), Madras (1937), Kanpur (1940), Hyderabad (1944), Delhi (1947) and at Bangalore (1957). For some time there were also rival Stock Exchanges at Bombay, Ahmedabad and Calcutta.

3.2 The first attempt at legislation to regulate the working of the Stock Exchanges was the Bombay Securities Contract Control Act, 1925 which came into force in the erstwhile State of Bombay with effect from 1st January, 1926. The Native Share and Stock Brokers' Association, Bombay, also known as The Stock Exchange, Bombay, was recognised under the said Act on 14th May, 1927. Subsequently, on 1st May, 1939, the Ahmedabad Share and Stock Brokers' Association was also recognised under the said Act.

3.3 With the Constitution of India coming into force on 26th January, 1950, "stock exchanges and futures markets" became an exclusively Central subject. Later, the Parliament enacted the Securities Contracts (Regulation) Act, 1956 whereunder the functioning of the Stock Exchanges came to be regulated on an All-India basis with effect from 20th February, 1957.

3.4 In 1957, five Stock Exchanges situated at Bombay, Calcutta, Madras, Ahmedabad and Delhi were recognised under Section 4 of the Securities Contracts (Regulation) Act. Two more Stock Exchanges located at Hyderabad and Indore were recognised in 1958. In 1963, the Bangalore Stock Exchange was recognised while the Cochin Stock Exchange was recognised in 1979. The Stock Exchanges at Kanpur and Pune were recognised in 1982 and in the following year the Stock Exchange at Ludhiana was recognised. The Gauhati Stock Exchange was granted recognition in 1984 and the Kanara Stock Exchange was recognised in 1985. Thus, there are today 14 recognised Stock Exchanges functioning in the country. Of these, seven Stock Exchanges at Bombay, Hyderabad, Ahmedabad, Calcutta, Madras, New Delhi and Bangalore are accorded permanent recognition under the SCR Act while those at Indore, Kanpur, Ludhiana, Cochin, Pune, Gauhati and Mangalore are given temporary recognition which is generally being renewed by the Government for a period of 5 years at a time. There are proposals to open a few more Stock Exchanges in the near future at Rajkot, Jaipur, Patna etc.

3.5 A Stock Exchange, by itself, does not directly deal with the public or transact any business in its own name. It has no objective or motive to earn profit on its own either. It only provides facilities to its members to conduct transactions in industrial and other securities.

3.6 The Section 2(j) of the Securities Contracts (Regulation) Act also defines a Stock Exchange thus — "Stock Exchange" means any body of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business, of buying, selling or dealing in securities.

#### SECTION-II : FORM OF ORGANISATION OF THE STOCK EXCHANGES

3.7 The Stock Exchanges which have been established so far in the country have not followed any uniform modal of organisation. This is evident from the fact that out of the 14 Stock Exchanges, three at Bombay, Ahmedabad and Indore are organised as associations of individuals, six at Calcutta, Delhi, Bangalore, Kanpur, Cochin and Ludhiana are companies limited by shares and the remaining five at Madras, Hyderabad, Pune, Gauhati and Mangalore are companies limited by guarantee.

3.8 The ten Stock Exchanges which have been established since 1937 have been incorporated under the Companies Act, 1956. This shows that the member-brokers of these Stock Exchanges themselves have not preferred "association of persons" as a model for the organisation of Stock Exchanges. After the Securities Contract (Regulation) Act came into force, Government have also discouraged any such association as an appropriate form of organisation for the Stock Exchanges and have instead advised incorporation of the Stock Exchanges as companies under the Companies Act, 1956 before grant of recognition of these Stock Exchanges under the Securities Contract (Regulation) Act.

3.9 An association of persons tends to further the interests of its members and its rules are, therefore, framed with this end in view. The Stock Exchanges which are associations of persons are no exception. The membership of the Stock Exchanges, which are constituted as associations, can be acquired by inheritance or by purchase of a card from an existing member or by the purchase of a new card issued by the Exchange with the approval of its members. The last proposition is normally not acceptable to the members as it leads to increased competition for business. Most of the members of such Stock Exchanges are from the same families or are either relations or employees of members. Thus, the monopoly of membership and of the rights and privileges attached thereto

are jealously safeguarded. In these circumstances, any attempt to regulate the functioning of such Stock Exchanges by the Government is considered to be an interference with their autonomy and independence. There is, therefore, a natural reluctance and resistance to abide by the guidelines/directions of the Government, issued in this regard.

3.10 An association of persons as a form of organisation for the Stock Exchanges might have been relevant at the time when conditions on the Stock Exchanges were such that investment habits had not spread beyond the metropolitan cities and choice of industrial securities was limited. Besides, corporate securities were fancied as a form of investment only by the rich and by the speculators having links with the forward markets in commodities. The general public, even in metropolitan cities, not to speak of semi-urban and rural areas, was not much interested in these securities. The association of persons as a form of organisation for the Stock Exchanges has outlived its utility and purpose in the context of the rapid growth in the securities industry in recent years and the consequent need for safe-guarding the interests of the investing public.

3.11 The Stock Exchanges which are incorporated as companies limited by shares derive their powers to make rules to govern the conduct of business of the members from their Memorandum and Articles of Associations. The Governing Body of such Stock Exchanges is the Board of Directors. The liabilities of members of such Stock Exchanges vis-a-vis the Stock Exchanges are limited. Membership of such Stock Exchanges can be acquired by holding the required number of qualifying shares. However, such shares are not freely marketable and transferable like the shares of any other company. Besides, these shares are liable to be forfeited when any member holding the shares is declared a defaulter for non fulfilment of his market obligations to other members or his clients or for the dues of the Stock Exchange.

3.12 The corporate form of organisation for the Stock Exchanges as companies registered under the Companies Act, 1956 provides for disciplined functioning under the regulatory framework of the said Act. Further, there would be uniformity in the disclosure of information by such Stock Exchanges to their members and to the public. In addition, any changes in the Memorandum and Articles of Association of such Stock Exchanges are also subject to the regulatory provisions of the Companies Act, 1956.

3.13 However, the Stock Exchanges organised as companies limited by shares have also tended to become inflexible and rigid and a close preserve of a few individuals and families. Again, because of the formalities and procedures to be complied with, any proposal to amend the constitution of such Stock Exchanges becomes time-consuming and, at times, frustrating and futile. Admission of new members to the Stock Exchanges also becomes virtually impossible, through the offer of new shares, as any increase in the share capital has to be offered in the first place to the existing shareholders who are generally averse to issue of further shares particularly to the outsiders.

3.14 Since, the Stock Exchanges are not profit-making organisations and cannot distribute profits by way of dividend there is no particular merit in having them established as companies limited by shares.

3.15 In case of the Stock Exchanges which are companies limited by guarantee, without share capital, the liability of the members is limited to the token guarantee amount set out in the Memorandum and Articles of Association. Each member is entitled to one vote. Democratic character of the Stock Exchanges is thus clearly established. Since there is no share capital, the membership of the Stock Exchanges can be increased easily by the Board of Directors as and when needed.

3.16 While there is no particular demerit in having the Stock Exchanges incorporated under the Companies Act, 1956 with a token amount guaranteed, the public character of the Stock Exchanges can be demonstrated better, if they are licensed under section 25 of the Companies Act, 1956. This incidentally has the advantage of several relaxations in the compliance of formalities and procedures under the Companies Act, 1956.

3.17 Considering the various aspects of the different forms of organisation, it would be appropriate to have an uniform model for the organisation of the Stock Exchanges in the country as a statutory corporation on the lines of a company limited by guarantee, without shares. Once the uniform form of organisation is adopted, all the Stock Exchanges should be required to have a common Memorandum and Articles of Association. Such a step would obviate the difficulties experienced, at present, in the formalities and implementation of uniform policies and procedures in respect of the management and membership of the Stock Exchanges. In this connection, it is suggested that the Memorandum and Articles of Association of the Madras and Pune Stock Exchanges which are organised as companies limited by guarantee may be taken as a model with suitable modifications as may be required.

3.18 The Committee recognises the fact that more than any other industry, it is the securities industry which is a highly specialised and sensitive industry depending largely on the psychology of expectations. It is imperative for the securities industry to enjoy the confidence of the investing public for its growth and development. Its complexities and problems are also peculiar to itself and different from those of other joint stock companies. Hence to regulate the activities of the Stock Exchanges, under the Companies Act, 1956, on the lines of the joint stock companies may not fully serve the desired objectives. Moreover, it would be necessary not only to regulate the working of the Stock Exchanges but also the activities of all those associated therewith such as the members of the Stock Exchanges, authorised clerks, sub-brokers, dealers in securities, merchant bankers, issue houses, registrars to the issues, etc. Besides, a number of financial and consultancy firms, investment advisers and investment and growth fund companies have come into existence recently. For the

healthy development of the securities industry in the country, the activities of all such persons and agencies will also have to be regulated properly. The Committee, therefore, recommends either the enactment of a separate Act or comprehensive amendments to the Securities Contracts (Regulation) Act providing for the incorporation and regulation of the Stock Exchanges and for regulating the activities of all those connected, directly or indirectly, with the securities industry. One of the Committee members' namely, Dr. S. M. Dugar, did not agree with this recommendation.

3.19. As for the incorporation and management of the Stock Exchanges under a separate legislation. Dr. S. M. Dugar felt that such a legislation was not necessary. In his view if the Stock Exchanges are to be constituted under a separate Act like a company limited by guarantee, all the provisions of the Companies Act pertaining to the administration and functioning of such companies will have to be incorporated in the new legislation which would mean avoidable duplication and may not serve any useful purpose. This was more so because if any relaxation in the application of any of the provisions of the Companies Act is to be made for such companies the same can be done easily, as well, under the existing provisions of the Companies Act, 1956.

3.20 After examining the pros and cons the Committee recommends that in view of the factors mentioned earlier there should be either a separate legislation for the securities industry or that comprehensive amendments may be effected to the Securities Contracts (Regulation) Act.

3.21 Pending such legislation of the amendments to the Securities Contracts (Regulation) Act, the Committee recommends that whenever new Stock Exchanges are to be established hereafter the Government should grant recognition to them if they are constituted as companies limited by guarantee and licensed under Section 25 of the Companies Act, 1956. In respect of the existing Stock Exchanges which are unincorporated associations they should switch over to the new form of corporate organisation by following the procedure laid down in the Companies Act, 1956. As regards the Stock Exchanges which are companies limited by shares, they should follow the procedure laid down in Section 391/394 by obtaining the approval of the members at the general meeting and also of the High Court for the reduction of capital under Sections 100 to 104 and thereafter seek the approval of the Central Government under Section 25 of the said Act. Where the existing Stock Exchange is a company limited by guarantee but without share capital incorporated under the said Act they should take suitable steps to get themselves licensed under Section 25 of the said Act.

3.22 As it is likely that the compliance with the above procedures and formalities for the conversion of the Stock Exchanges into companies limited by guarantee under the Companies Act, 1956 and the enactment of a separate legislation for the regulation of the securities industry may involve considerable time, the Committee recommends that the Securities

Contracts (Regulation) Act should be suitably amended expeditiously so as to empower the Government to bring about aforesaid changes in the organisational structure of the Stock Exchanges which are presently associations of persons or companies limited by shares.

### SECTION-III : MANAGEMENT OF THE STOCK EXCHANGES

3.23 The success or failure of any institution depends ultimately on the type of persons who manage its affairs. This is equally true of the Governing Body of a Stock Exchange which is ultimately responsible for its smooth working and efficient functioning.

3.24 The management of the Stock Exchanges is vested in the Governing Body called differently as Governing Board|Board of Directors|Council of Management. The Governing Body has normally a minimum of six and a maximum of sixteen members elected from amongst the members of the Stock Exchange. The Bombay Stock Exchange has 16 members and Ahmedabad and Calcutta have 15 members each. In addition, the Government appoints on each body, persons not exceeding three in number, as their nominees as per Section 4 of the Securities Contracts (Regulation) Act. In most of the Stock Exchanges at least one local person of eminence is also appointed as a public representative by the Governing Bodies of the Stock Exchanges with the approval of the Government. The Bombay Stock Exchange has three such public representatives on its Governing Body.

3.25 As regards the appointment of Presidents of the Governing Bodies of the Stock Exchanges, the practice varies. The Presidents and Vice-Presidents of the Stock Exchanges at Madras, Delhi, Ahmedabad and Calcutta are nominated by the Government from amongst the elected members while in Bangalore, the President is elected by the General Body of members from amongst the elected members of the Governing Body and the Vice-President is elected by the Governing Body. At the remaining Stock Exchanges the Presidents and Vice Presidents are elected from amongst the members of the Governing Bodies. At Bombay, Calcutta, Madras, Delhi and Ahmedabad Stock Exchanges, Executive Directors are in charge of the day-to-day administration of the exchanges. The Executive Directors are appointed by the Governing Bodies generally for a period of three to five years with the prior approval of the Government. Other Stock Exchanges are administered by the Presidents and the Secretaries. The Secretaries are appointed by the Governing Bodies subject to the approval of the Government.

3.26 So far as the Presidents of the Stock Exchanges are concerned, their tenure of office is for one year only, but they are eligible for re-election|renomination. However, no person can be the President for a consecutive period of more than three years. It is still possible for the same person to be appointed|get nominated as the President after the break of one year. In case of the Bombay Stock Exchange, however, the Rules do not provide for such a break. It is, therefore, possible in the Bombay Stock Exchange for the same person to continue as the President without any break as long as he enjoys the confidence of the members and of the elected directors.

3.27. The Governing Body of a Stock Exchange is vested with wide discretionary powers, inter alia, to :

- (i) manage and control the functioning of the Stock Exchanges;
- (ii) regulate trading in securities;
- (iii) fine, suspend or expel members and take such other disciplinary actions as it deems fit;
- (iv) govern business conduct and relationship, settle disputes, if any, amongst members inter se and between members, and non-members;
- (v) make or amend any Rules, Bye-laws or Regulations or suspend their operations, with the approval of the Government;
- (vi) interpret the Rules, Bye-laws and Regulations in its own discretion, etc.

3.28 The Governing Bodies of all the Stock Exchanges in the country normally appoint from among their members, defaults committees and arbitration committees. The Government have laid down that their prior approval should be obtained by the Stock Exchanges for constituting any other committee.

3.29 Dealings on the Stock Exchanges take place in financial instruments. Hence the affairs of the Stock Exchanges have to be conducted with the highest standards of professional conduct and business ethics and morality to inspire and sustain the confidence of the investing public and the Government.

3.30 The Governing Body of any Stock Exchange should, therefore, be composed of persons possessing professional competence, wide experience, business acumen, honesty, integrity and proven probity. To be effective and successful the Governing Body must have specific objectives, clear cut perspectives, fair and non-partisan approach to problems, an awareness of the role it is expected to play and the responsibility it has to shoulder in the national economy. The Governing Body must possess necessary vision and foresight to prevent malfunctioning of Stock Exchanges and to avoid crises, in the working of the Stock Exchanges by taking timely and effective action and a strong will and determination to stamp out malpractices and unethical behaviour in the conduct of the affairs of the Stock Exchanges so as to ensure fair and equitable trade practices. It must also display firmness and courage in taking strong disciplinary actions against erring members in order to ensure smooth and efficient functioning of the Exchanges. Only such a Governing Body can command respect of the investing public and enhance the image and creditability of the Stock Exchanges in the eyes of the public.

3.31 All the Stock Exchanges in the country are at present managed by their Governing Bodies which have a majority of elected member directors. Therefore, many a times, the decisions taken by such Governing Bodies tend to sub-serve the interests of the members of the Stock Exchanges. There is consequently a general feeling among the investing public that their interests are not adequately safe-guarded by

such Governing Bodies. Further, the Governing Bodies of the Stock Exchanges have not, so far, been able to take effective steps for the development of the securities industry in the semi-urban and rural areas through measures such as undertaking sustained publicity programmes for creating awareness amongst the investing public/potential investors on the benefits of investment in industrial securities. These bodies have also not been able to take steps to increase, broaden and professionalise the membership of the Stock Exchanges. They have not even made any special efforts towards modernisation and computerisation of the operations of the Stock Exchanges and arranging for simultaneous dissemination of information relating to transactions in securities. Also the Governing Bodies have not been able to ensure that the Stock Exchanges are comparatively free from crises and function on healthy lines. As a result, it has not been possible for them to build up adequately the investors' confidence in the functioning of the Stock Exchanges.

3.32 There has, therefore, been a persistent demand for a long time for broad-basing the composition of the Governing Bodies of the Stock Exchanges by the induction of persons of eminence from outside having considerable professional background, wide experience, knowledge and expertise in corporate matters. The complexities and diversity of the modern day security business do not merely demand the knowledge and experience of the mechanics of trading in securities but also require a broad general knowledge and a good grasp and understanding of subjects like economics, accountancy, law, taxation, investment, etc., on the part of those who manage the affairs of the Stock Exchanges. This apart, there is also an independent justification for not leaving the working of the Stock Exchanges mainly in the hands of member-brokers as large funds of the investing public are involved. A number of specialised development and investment institutions with necessary technical expertise, vast pool of trained manpower and huge financial resources have also come into existence since 1950's and are playing a vital role in the capital market. They lend support to the primary and secondary markets in industrial securities. Moreover, professional bodies of chartered accountants, cost accountants, company secretaries and institutes of management and finance have been established. These bodies provide research and training facilities in the theory and practice of finance and management and secretarial matters.

3.33 In the opinion of the Committee, time is now, therefore, opportune for reorganising the Governing Bodies of the Stock Exchanges. There has been a radical transformation in the structure of the capital market since 1950's. The stock markets, both primary and secondary, have also witnessed a phenomenal growth in the last few years and the number of investors has gone up substantially. The Stock Exchanges have a crucial role to play in the further development and growth of the industrial sector, in particular, and of the economy, in general. It is therefore, imperative to strengthen the Stock Exchanges so that they are transformed into efficient and dynamic market organisations for mobilising the increasing volume of savings from the numerous investors spread all over the country and for providing liquidity in the secondary market for



transactions in listed securities. The Committee, therefore, recommends that immediate steps should be taken by the Government to broad-base the existing Governing Bodies of the Stock Exchanges to make them fully representative of various interests and responsive to the needs of the times.

3.34 The Governing Body of each of the Stock Exchange should consist of elected and non-elected members on a 50 : 50 basis not exceeding 18 in number, apart from the Chairman and the Managing Director. Furthermore, one-third of elected directors should retire every year. The elected directors should be from amongst the existing members of the Stock Exchanges. They may have a maximum of two consecutive terms of three years and after a minimum break of one term, they may be re-elected for a further two terms of three years each. Thus, no member can hold the office of Director for a period exceeding 12 years in the aggregate. In addition to the proposed strength of the Governing Bodies, the financial institutions should have a right to appoint their nominees not exceeding two in number, on the Governing Body of any Stock Exchange which avails of the financial assistance from them.

3.35 The Committee is of the view that so far as the non-elected members are concerned, the Government should nominate them from the Government departments, development banks/institutions, investment institutions, the Reserve Bank of India, economists having necessary expertise in stock and capital markets, industrialists and professionals from recognised bodies such as Institute of Chartered Accountants of India, Institute of Cost & Works Accountants of India, Institute of Company Secretaries of India, Institutes of Management, etc. The terms and conditions of service of such nominated members should be decided by the Government. The Committee notes that one of the reasons for the infrequent attendance of the public representatives at the meetings of the Governing Bodies of the Stock Exchanges is that no remuneration is paid to such persons for sparing the valuable time from their other activities. The Committee, therefore, suggests that such nominated members should be adequately compensated so that they evince greater interest in the functioning of the Stock Exchanges.

3.36 The Committee also recommends that in view of the suggested changes in the structure and composition of the Stock Exchanges, the post of the President of the Stock Exchanges may be dispensed with. Instead there should be a Chairman of the Governing Body appointed by the Government from a panel of three names of independent persons recommended by the Governing Body of the Stock Exchange concerned. In case the Government do not approve of any of the names from the panel suggested by the Governing Body for the Chairmanship, the Government should have a residuary power to appoint any person of their choice in consultation with the Governing Body. Such a Chairman of the Governing Body should be an independent person of eminence, not having any direct or indirect interest in the trading activities of the Stock Exchanges. The Committee is also of the view that the tenure of office of the Chairman should be for a period of five years

and he should be eligible for reappointment for a further period of five years. However, no person should be appointed as the Chairman for more than two terms of five years each.

3.37. The Committee feels that the elected directors of the Stock Exchanges should be given some important office in the top management of the Stock Exchanges. The Committee, therefore, recommends that there should be a post of Vice-Chairman which may be filled up by way of election by the Governing Body from among the elected directors.

3.38 The Committee also recommends that for the purpose of managing the affairs of the Stock Exchanges without fear or favour each of the Stock Exchanges should have a Managing Director who should possess the requisite expertise in the field and who should not have any direct or indirect dealings in industrial securities. The terms and conditions of service of such a Managing Director should be determined by the Government and not by the Stock Exchange as is done at present. The Managing Director should have a term of 5 years which can further be extended from time to time at the discretion of the Government but not beyond the age of 65 as is provided at present in respect of Executive Directors. The Stock Exchanges should also have a manned secretariat whose functions are divided indifferent specialised departments dealing with different aspects of their business activity, each headed by a senior executive reporting to the Secretary and the Managing Director.

3.39. The Committee recommends that in addition to the existing committees like defaults committee, arbitration committee, etc. there should be at least two more special committees, one for planning and development of securities business and the other for the purposes of audit. As all these are important committees whose functioning has a vital bearing on the efficient working of the Stock Exchanges, the Committee recommends that the Governing Bodies of the Stock Exchanges should co-opt eminent persons from outside on such committees. The Committee also recommends that the defaults committee and the arbitration committee should each be headed by an eminent independent Chairman. The Governing Bodies of the Stock Exchanges should also have a panel of independent auditors for conducting surprise audit of the books of accounts and other documents of the members of the Stock Exchanges.

3.40 To enable the re-constituted Governing Body to function effectively, the Committee is of the view that the Governing Body of the Stock Exchange should be vested with adequate powers and authority to institute civil and criminal proceedings, from time to time, against the members and non-members for breach or violation of any of the provisions of the Securities Contracts (Regulation) Act, Rules, Regulations and Bye-laws of the Stock Exchanges and any other directives issued by the Government or the Stock Exchange authorities or the Council for Securities Industry, the establishment of which is proposed later in this chapter. The Securities Contracts (Regulation) Act, the Rules framed thereunder and the Rules, Bye-laws and Regulations of the Stock Exchanges may suitably be amended for this purpose.

#### SECTION IV : OVERALL ADMINISTRATION, SUPERVISION AND CONTROL OF THE STOCK EXCHANGES IN THE COUNTRY

3.41 At present, the overall administration, supervision and control of the Stock Exchanges vest in the Stock Exchange Division of the Department of Economic Affairs, Ministry of Finance, Government of India. This Division administers the Securities Contracts (Regulation) Act. The Division also gives from time to time, administrative guidelines and directives for regulating the functioning of the Stock Exchanges and for developing the securities industry in the country. Officers of this Division are also nominated on the Governing Bodies of the Stock Exchanges. The Division functions through its headquarters at Delhi and two of its field offices at Bombay and Calcutta.

3.42. As stated in Chapter 1, there are, at present, 14 Stock Exchanges in the country and around 4,000 public-limited companies are listed therein representing almost 90% of the total paid-up capital of about 14,000 public limited companies in the non-government sector. In the last few years, the volume of trading activity in the secondary market for industrial securities has witnessed a phenomenal growth. The new issues market is also extremely buoyant and is expected to mobilise resources of the order of about Rs. 10,000 crores per annum by the turn of the century. Investment consciousness and investment habits are spreading in the semi-urban and rural areas. However, tremendous savings potential in the household sector in such areas still awaits to be tapped. It would, therefore, be necessary to establish more Stock Exchanges and create a wide network of agents and dealers in securities in the country to spread the message of investment in industrial securities. To tap the savings potential in the household sector for investment in industrial securities suitable investors' education programmes to change the preference of the investors from physical assets to financial assets, to familiarise them with the industrial securities and the working of the Stock Exchanges, etc. needs to be organised. Besides, systematic training programmes for the members of the Stock Exchanges, agents, dealers in securities, etc. to enable them to render better services to the investors will have to be chalked out and implemented. Moreover, keeping in view the tremendous growth anticipated in the volume of business on the Stock Exchanges in the near future, trading practices and procedures on the different Stock Exchanges will have to be integrated at the national level and computerisation of operations will have to be undertaken. The audit machinery and the reporting systems, both at the Stock Exchange level and at the national level, will also have to be strengthened considerably. In addition, the activities of a large number of persons who are trying to mobilise financial resources of the community through the floatation of investment companies, growth funds, leasing companies, etc. and also of those who are connected with the securities industry such as investment advisers and consultants, merchant bankers and security dealers in the country will have to be closely regulated and monitored on sound lines to protect

the interests of the investing public. With the growth in the volume and complexity of business and with a view to handling the above tasks more effectively the internal regulation, control and discipline of the Stock Exchanges will have to be buttressed by a more comprehensive and stricter external control and supervision to coordinate and regulate their conduct and affairs.

3.43. The securities industry is a highly specialised type of business. The development of the securities industry, therefore, needs besides administrators, specialist personnel such as economists, legal experts, auditors, investment and financial analysts, computer experts, etc.

3.44. It may be mentioned, in this context, that in his Report on the Regulation of Stock Markets in India, Shri P. J. Thomas had recommended the establishment of a National Investment Commission on the lines of the Securities and Exchange Commission in USA. His considered view was that the same Commission should be charged with the administration of the company law and the capital issues control because only by the coordinated control of all the three fields including the Stock Exchanges, could the investment market be properly supervised in the national interest. Similarly, the Gorwala Committee appointed in 1951 had also recommended the establishment and constitution of the Stock Exchange Commission in the draft bill prepared by it for the regulation of the Stock Exchanges and contracts in securities.

3.45. The Committee considered at length the desirability of establishing a Commission to regulate the functioning of Stock Exchanges. While, no doubt, there would be certain distinct advantages in the setting up of such a Commission, the Committee is not inclined to recommend for its establishment presently for two principal reasons. First, such a Commission may erode the autonomy of the Stock Exchanges and thereby defeat the objective of self-regulation on a uniform basis by the Stock Exchanges themselves. Secondly, the Commission may not perhaps be a conducive agency for the rapid development of the Stock Exchanges and the capital market.

3.46. While the Committee is not inclined to recommend the establishment of the Commission, it recommends that there should be an apex body called the Council for Securities Industry which will play a coordinating and supervisory role with regard to the regulation of Stock Exchanges. The Council will also act as an appellate authority in the securities industry. Besides, the Council will have powers to institute civil and criminal proceedings in such matters as the Government may direct. Such a body will not supplant the Stock Exchange Division of the Ministry of Finance in its functions.

3.47. One of the Committee members namely, Dr. L. C. Gupta did not agree with the observations and recommendations of the Committee made in para 3.45 & 3.46 above. He was of the view that the proposed Council for Securities Industry would not achieve the desired objective. According to him a Commission on the lines of the Securities and Exchange



Commission, U.S.A. should be established in the country to regulate the working of the Stock Exchanges. He felt that the considerations which had weighed with several earlier Committees, including the Gorwala Committee, in recommending the creation of a similar Commission were even more valid in the present conditions. He observed that the experience had shown that the Stock Exchange Division working within the departmental framework and with frequent transfers of its senior officers, would be unable to build up the requisite expertise. It would also not have the needed autonomy to be effective. The Council for Securities Industry would have no teeth and its functioning was likely to result in over-lapping of the authority with the Stock Exchange Division.

3.48. The Committee recommends that the functions of the Council for Securities Industry should be as under :—

- (i) to coordinate, integrate and monitor the working of the Stock Exchanges in the country and to recommend to the Government establishment of new Stock Exchanges at appropriate places;
- (ii) to establish standards of conduct and sound practices in the security industry;
- (iii) to recommend amendments/modifications in Securities Contracts (Regulation) Act and also in the Rules, Byelaws and Regulations of the Stock Exchanges;
- (iv) to register members of the Stock Exchanges, dealers and agents in securities, authorised clerks, etc.
- (v) to conduct regular training programmes through a national institute or otherwise for the members of the Stock Exchanges, authorised clerks, dealers and agents in securities, etc.
- (vi) to conduct country-wide investors' education programmes through publicity drive, publication of investment literature in regional languages, etc.
- (vii) to recommend policies regarding trading on the Stock Exchanges, system of liquidity margins based on the financial resources of the brokers, security deposit amount, etc.
- (viii) to impose adhoc margins, fix floor/ceiling prices include or remove any shares from the specified list suspend trading in any one or more scrips, enforce discipline in the Stock Exchanges, etc. whenever deemed necessary.
- (ix) to investigate complaints of the members, investors and the general public regarding violation of laws, wrongful actions of the Stock Exchanges, Stock Exchange members, agents, dealers, public limited companies and to institute civil and criminal proceedings, if necessary;

- (x) to establish suitable machinery for scrutiny and follow-up in respect of various returns and information submitted by the Stock Exchanges and listed companies;
- (xi) to conduct investment research and analysis of the working of the public limited companies, keep proper records of returns and information filed by them, make the same available to the general public and build up national information system on corporate finance and investments and indices of security prices;
- (xii) to frame accounting and auditing standards and to conduct audit of accounts of the member brokers of the Stock Exchanges and dealers in securities through chartered accountants;
- (xiii) to register investment and financial advisers and consultants, investment companies, merchant bankers, growth funds, leasing companies and to regulate their activities to safeguard the interests of the investing public;
- (xiv) to recommend legislation for investors' protection, supervise the overall working of the investors' protection fund as may be set up by the Stock Exchanges and insurance arrangements made by them;
- (xv) to bring about simultaneous display of prices among Stock Exchanges and to facilitate arbitrage transactions among Stock Exchanges;
- (xvi) to act as an appellate authority in cases of inter-exchange disputes, disputes between members and Stock Exchanges, between members and their clients, etc.;
- (xvii) to carry out such other functions and activities as may be entrusted by the Government from time to time;

3.49. In order to enable the proposed Council for Securities Industry to perform its above mentioned functions, in an effective manner, necessary powers shall have to be conferred on the Council by the Government.

3.50. The Committee also recommends that the Governing Body of the Council for Securities Industry should consist of 10 members. Of these four members should be from among the Chairmen of the Stock Exchanges, at least one of whom should be the Chairman of a small Stock Exchange; four other independent members selected from Government officials (not exceeding two in number), experts from the field of corporate finance, economics, accountancy, management and law; and one member each from investment and development finance institutions, which would be contributing towards the initial capital of the Council for Securities Industry. The Governing Body of the Council should be headed by a whole-time Chairman-cum-Managing Director. The appointment, the tenure

of office, terms and conditions of service of the members of the Governing Body of the Council including its Chairman-cum-Managing Director may be decided by the Government.

3.51 The Council for Securities Industry should be a statutory body with adequate powers embodied in the Statute itself to enable it to perform its various functions effectively. It should have a properly structured Secretariat of its own to undertake market surveys, investment research, publicity, training, policy formulation, audit, etc.

3.52 To begin with, the Council should have Regional Offices at the places where the principal Stock Exchanges are situated i.e. at Bombay, Calcutta, Madras, Delhi and Ahmedabad and later, if need be, Branch offices could be established at other centres where the Stock Exchanges are situated.

3.53 The expenses of the Council for Securities Industry can be met by way of a levy on the turnover of the Stock Exchanges, surcharge on the listing fees, etc. Since the Council will have to incur a substantial expenditure in the beginning, its initial funding by way of contributions to initial capital should be done by the financial institutions particularly the investment oriented ones.

3.54 The Committee notes that the strength of the Stock Exchange Division of the Ministry of Finance has remained unchanged since 1965. The Committee is of the view that the strength of the Division needs to be considerably increased and upgraded to cope up with the increased volume of work emanating from the rapid development of the capital market and the increasing number of Stock Exchanges. For this purpose, a large number of additional posts needs to be created on an emergent basis in this Division.



## CHAPTER—4

### MEMBERS OF THE STOCK EXCHANGES

The Committee has been asked to look into the existing system of membership of the Stock Exchanges in India with a view to facilitating periodic increases in the membership and evolving a system of agents for Stock Exchanges.

#### SECTION — I : INTRODUCTION

4.1 Taking into account the rapid changes that are emerging in the securities industry in India in the last decade and the vital bearing they have on the functioning of the Stock Exchanges in the country, the issue of membership assumes a wider significance and crucial importance in terms of number, quality, expertise, business ethics, etc. From the beginning of the 80's the securities markets in India have witnessed an unprecedented and almost explosive growth. This is reflected in the near fifteen-fold and ten-fold increase in the security business in the primary and secondary markets in the country, respectively. The number of shareholders has also increased from about 3 million to 5 million and debenture-holders from less than 1 million to about 5 million. Both the primary & secondary markets have become buoyant and are poised for a quantum leap. Again, with the establishment of more Stock Exchanges in the country coupled with sustained buoyancy of the markets, spread of investment education and dissemination of information, investment consciousness and investment habits are not only spreading in urban areas but are also gradually percolating to semi-urban and rural areas attracting a fresh class of investors to the Stock Exchanges. Non-Resident Indians have started taking an active interest in industrial securities in India. At the same time, an increasing reliance is also placed on the Stock Exchanges by the private corporate sector for meeting its ever growing needs of industrial finance. It is envisaged that the tempo of capital formation and industrial development witnessed lately will continue unabated and the anticipated growth rate of the national economy will materialise. In our view, the growth scenario of the corporate sector and consequently of the Stock Exchanges will unfold vast opportunities of large proportions by the turn of the century.

4.2 At this juncture when the Stock Exchanges are on the threshold of a new era, it is imperative that the functioning of the Stock Exchanges should be on healthy lines. It is, however, observed that working of some of the Stock Exchanges has been characterised, among others, by (i) excessive speculation leading to crisis conditions and consequent stoppage of business; (ii) apathy of some of their members to service small investors, particularly, from the up-country centres; (iii) non-compliance of the Rules, Bye-laws and Regulations and the directives of the Governing Bodies;

(iv) lack of healthy business ethics; and (v) mal-practices in the conduct of business, etc. All these unhealthy practices and trends need to be corrected.

4.3 To bring about the desired transformation in the securities industry and to ensure that the Stock Exchanges function as national institutions, the members shall have to improve the 'ecology of the mind' and change their outlook, professionalise their methods of working through development of competence, technical skills and knowledge of business, adopt modern methods and techniques to improve efficiency of their operations, exhibit highest standards of honesty, integrity and business ethics and show a greater awareness of their responsibilities to the investors and the national economy. Only then, it would be possible for the Stock Exchanges to function effectively as a part of the financial system of the country and gain the confidence of the investing public.

4.4 It is, therefore, necessary to examine in depth the existing system of membership of the Stock Exchanges and the improvements that are needed, therein, to achieve the desired objectives.

4.5 Any meaningful discussion on the membership of the Stock Exchanges will necessarily have to deal with several related aspects like :

- (a) Eligibility criteria for membership;
- (b) Educational and professional qualifications;
- (c) Experience, training and knowledge of business;
- (d) Financial solvency and viability;
- (e) Publicity by members; and
- (f) Other connected issues.

#### SECTION II : ELIGIBILITY CRITERIA FOR MEMBERSHIP

4.6 Membership of a Stock Exchange in India is open to anyone above the age of 21 years provided he is a citizen of India and does not suffer from any of the dis-qualifications laid down in Rule 8 of the Securities Contracts (Regulation) Rules, 1957. The Rule provides that a candidate for membership must not be a bankrupt or insolvent; must not have compounded with his creditors and has discharged 100 per cent of his liability; should not have been convicted of any offence involving fraud or dishonesty; should not have been expelled or declared a defaulter by any other Stock Exchange; should not engage as principal or employee in any business other than that of securities except as a broker or agent not

involving any personal financial liability. If the person has been refused admission earlier, he can reapply one year after the date on which he has been refused membership. In case of the newly recognised Stock Exchanges, if a member is connected with any other business, he is expected to sever his connection with such business within a period of three years or such longer period as may be granted by the Government subject to the proviso that he does not get himself associated directly or indirectly with any organisation where forward business of any kind whether in goods or commodities or otherwise is carried on. A member is also not permitted to be a member of any other association in India which deals in securities or be a director, partner or an employee of a company whose principal business is that of dealing in securities. He cannot also associate himself either directly or indirectly with any other Stock Exchange.

4.7 These eligibility criteria thus, aim at throwing open membership to all persons above the age of 21, provided they satisfy the criteria pertaining to experience, qualifications, etc. which are examined in the following sections of this report.

### SECTION III : EDUCATIONAL AND PROFESSIONAL QUALIFICATIONS

4.8 The Securities Contract (Regulation) Rules do not by themselves stipulate any educational qualifications for any person to be eligible for admission to the membership of a Stock Exchange. It may be that in the past, more importance was attached to experience than to educational qualifications due to the essentially trading nature and the predominantly hereditary character of the business. Therefore, no minimum educational qualifications or standards were prescribed till as late as 1978 for becoming a member of a Stock Exchange. It was only in that year that while renewing grant of recognition to some of the Stock Exchanges, the Government prescribed that applicants for membership of the Stock Exchanges should have passed at least matriculation or an equivalent examination. The Stock Exchanges were, however, permitted to waive the qualification with the previous approval of the Central Government in the case of an individual who was a successor to the established business of a deceased or retiring member or in any other deserving case. It is heartening to note that many of the new entrants to the Stock Exchanges are graduates, chartered accountants, engineers, etc. The fact still remains that a majority of the members are drawn from the families of stockbrokers and several of them do not have adequate educational and professional qualifications.

4.9 For a stockbroker to be effective, he should possess adequate knowledge about the securities industry and a clear understanding of the provisions of relevant Acts, Rules, Regulations, Byelaws and official guidelines having a bearing on the securities business. A view was expressed that unless a person is atleast a graduate, he would not be in a position to acquire the necessary essentials relating to these matters. However, another view on the subject was that stockbroking being essentially an agency business, it could be undertaken by any person with basic education

upto matriculation and what was essentially required was the art of conducting trading in securities and building up a reputation of integrity and honesty rather than formal university education.

4.10 After discussions, the Committee felt that it would suffice for the present if the requirement of educational qualification is pegged at the level of 12th standard subject to the condition that the candidate for membership should have undergone the necessary training and also have passed the examination prescribed separately in this regard. The question of prescription of a degree from a recognised University for becoming a member of the Stock Exchange may be reviewed, later on, say after five years.

4.11 The Committee is of the view that apart from educational qualification recommended above, applicants for membership should have knowledge of the various aspects of securities business. It is widely recognised that anyone who wants to practise any profession such as law, income tax, medicine, accountancy, etc has to have some minimum required educational qualification and training, professional background and standards of proficiency in related fields. However, in the case of stockbroking business, a major part of the training, experience and knowledge of the majority of the stockbrokers is essentially routine in nature and mainly relates to trading on the floor and making book entries. As such, a majority of the stockbrokers do not generally have the required professional competence to carry on stockbroking business.

4.12 Stockbroking today has ceased to be merely a trading activity and has merged as a sophisticated profession. As such, the present day stockbroker has to be well versed not only in the clerical and technical aspects and intricacies of the business but has also to have necessary knowledge of economics, corporate finance, functioning of the financial institutions, various types of alternative avenues of investment available to an investor, etc. This also implies that he must have adequate working knowledge of the provisions of the various Statutes such as The Securities Contracts (Regulation) Act, 1956 and the Rules framed thereunder, The Capital Issues (Control) Act, 1947, Companies Act, 1956, Income Tax Act, 1961 and the Rules, Byelaws and Regulations of the Stock Exchanges, policies of the financial institutions, various notifications and guidelines issued by the Government that have a vital bearing on the trading in securities, etc. This knowledge is necessary for a stockbroker to advise and serve his clients. The stockbroker has, therefore, to be a professional in his approach and working and possess requisite knowledge and technical skills demanded of his business. Hence, he should take up a diploma course in the subjects relevant to the Stock Exchanges and for this purpose, adequate facilities should be provided.

4.13 In this connection, it is noted that the Madras Stock Exchange sponsors educational programmes for the members and others in collaboration with the University of Madras and conducts regular courses on securities portfolio management and investment counselling. Members of the Madras Stock Exchange also participate in programmes organised by the management and financial institutes. Similarly, the Calcutta Stock Exchange conducts programmes of about three

months' duration covering all aspects of Stock Exchange functioning, Rules, Regulations and Byelaws, balance sheet analysis, etc. for the benefit of members, their clerks and even outsiders. A person who proposes to become an authorised assistant has to attend such courses and obtain a diploma on the basis of a written test. However, to the best of our knowledge other Stock Exchanges in the country do not appear to have organised such courses. There has, therefore, to be conscious and well planned efforts in this direction at the national level.

4.14 The Committee notes that there is, at present, a critical dearth of persons, having requisite background and training in the art of investment and financial institutions, merchant banks, investment consultants and bureaus, Stock Exchanges, etc. It is, therefore, recommended that a separate institution designated as 'The National Institute of Investment and Financial Analysts' should be established which can offer professional courses and impart necessary theoretical training and background knowledge to the persons who wish to specialise in such fields. Such an institution can be established at the All-India level on the lines of the Institute of Chartered Accountants or Actuaries or Institute of Company Secretaries of India or Bankers with the cooperation of the financial institutions, Universities or the Institutes of Management. It can, when established, provide special diploma courses of one year's duration for persons connected with the Stock Exchanges, such as members of the Stock Exchanges, authorised assistants/clerks, etc.

4.15 In addition, the Council for Securities Industry, establishment of which has been separately recommended by the Committee, in collaboration with either the Institutes of Management, Institutes of Chartered Accountants/Company Secretaries of India or the Universities can, itself organise through the Stock Exchanges, diploma courses of a year duration and conduct examinations for the purpose. Exemptions from some subjects can be given to persons who have undertaken specialised study in financial subjects in the educational or professional institutions. Passing of such a diploma course organised either by the National Institute of Investment and Financial Analysts or the Council for Securities Industry, must be a pre-requisite for anyone who wants to enrol as a member of the Stock Exchange, subject to his satisfying other requirements as well. Such educational qualifications and completion of the diploma/certificate course must be made obligatory even in case of persons succeeding to the established business of a deceased or retiring member of the Stock Exchanges.

4.16 It is equally necessary that the existing members not having necessary educational or professional qualifications, are given an exposure to the modern techniques of investment with special emphasis on the various aspects of services to the investors through part-time common refresher courses of 6 to 8 weeks' duration. Such common courses may be conducted regularly by each of the Stock Exchanges for the benefit of such members.

4.17 The proposed Council for Securities Industry should also organise induction courses for the sub-brokers, licensed securities agents and licensed dealers canvassing business for industrial securities, as is done by institutions like the Life Insurance Corporation, General Insurance Corporation, Unit Trust of India, etc.

4.18 In view of the importance of the Stock Exchanges in the national economy, it is also suggested that suitable courses on the Stock Exchange functioning and related matters should be introduced in the curriculum, both at the levels of schools and colleges.

#### SECTION IV : EXPERIENCE AND TRAINING IN THE BUSINESS

4.19 The Committee is of the view that apart from the educational and professional standards recommended by the Committee, it is necessary for a prospective member of the Stock Exchange to have some practical experience and training with a stockbroking firm. At present, even though a person may, otherwise, be eligible according to the criteria laid down in Rule 8 of the Securities Contracts (Regulation) Rules, he cannot be admitted to the membership of the Stock Exchange unless he has two years' experience of working as a partner, an authorised assistant or an authorised clerk or remisier or apprentice of a member. In the alternative, he has to work as a partner or as a representative member of another member and in that capacity can enter into bargains on the floor of the Stock Exchange only in the name of the authorising member and not in his own name. He is, however, entitled to issue in his own name contracts to his clients provided he deposits with the Stock Exchange, the prescribed amount of security deposit. He need not even have the above mentioned experience of working in the Stock Exchange if he succeeds to the established business of a deceased or retiring member who is his father, uncle, brother or any other person who is, in the opinion of the Governing Body, a close relative/relation. The Governing Body can waive compliance with any of the foregoing conditions if the person seeking admission as a member is considered by the Governing Body to be, otherwise, qualified for membership.

4.20 The Committee feels that the requirements regarding experience and training necessary for the admission of a member of the Stock Exchange will have to be limited to six months for a person who has fulfilled the educational and professional qualifications as prescribed earlier. The compulsory period of six months may, however, be reduced to three months in the case of highly qualified persons like Chartered Accountants, Cost Accountants, Company Secretaries, MBAs or post-graduates in commerce or economics.

4.21 So far as the existing authorised assistant or authorised clerk or apprentice of a member who does not have the required educational qualification i.e. 12th standard, is concerned, he will be eligible to become a member, if he has passed diploma/certificate course organised by the National Institute of Investment and Financial Analysts/Council for Securities Industry and has undergone practical training with a stockbroking firm for a period of 2 years.

4.22 In this connection, it is observed that only a few stockbrokers in the country are professionally competent and have necessary infrastructure to impart requisite training and knowledge to anyone about the various aspects of security business. Hence, it is also suggested that each Stock Exchange should have a panel of approved members who are in a position to impart adequate knowledge and training to the aspirants for membership.

4.23 Most of the Stock Exchanges do not have library facilities. This may, perhaps, be due to financial and accommodation constraints. As the Stock Exchange operations are closely linked with the developments taking place in the national economy and the progress in the corporate sector, it is necessary that the Stock Exchanges should have adequate library facilities, for broadening the knowledge of the stockbrokers.

4.24 It is the view of the Committee that suitable steps should be taken expeditiously to provide adequate theoretical and practical training and library facilities with a view to professionalising the stockbroking business. Provision of these facilities assumes an added importance in the context of the anticipated growth in the securities industry and the need to render better services to the growing number of investors.

## SECTION V : FINANCIAL SOLVENCY AND VIABILITY

4.25 The tendency on the part of many stockbrokers to indulge in speculative activities arises mainly on account of their desire to make quick profits and to supplement their income. Such speculative activities have often led to excessive trading, resulting in payment crises which are largely due to the inadequate financial strength and solvency of such stockbrokers. This has led, by and large, to the erosion of the confidence of the investors in the functioning of the Stock Exchanges. Even otherwise, the poor financial strength of some of the stockbrokers is reflected in the lack of adequate infrastructural facilities like telephones, proper office space, etc. and staff to serve the clients. In view of the aforesaid factors, many of the stockbrokers are not in a position to render any worth-while service to the investors particularly to the small and up-country investors. It is therefore appropriate that any member of the Stock Exchange who has to do business transactions involving large amounts and in negotiable financial instruments like shares and debentures must have sufficient financial resources to do his business in a viable manner and to enjoy the confidence not only of the fellow stockbrokers but also of the large body of existing investors and prospective clients.

### I. Security Deposit.

4.26 The only financial requirement stipulated at present for any member before conducting business on the floor of the Stock Exchange is that he should

pay the security deposit prescribed by the Exchange. Such a security deposit is paid either in cash or by way of bank deposit receipts or in securities approved by the Governing Body of the Stock Exchange. The amount of security deposit payable by a member varies from one Exchange to another. For example, it is Rs. 50,000 per member at Bombay, Rs. 20,000 at Calcutta (additional amount of Rs. 50,000 if the member does business in "specified shares"), Rs. 30,000 at Madras, Rs. 10,000 at Delhi and Hyderabad, Rs. 5,000 at Indore etc. Over and above these security deposits, *ad hoc* margins are also imposed whenever circumstances warrant to ensure that the stockbrokers do not trade beyond their financial means. Such margins are, quite often, neither adequate nor imposed in time. Besides, these margins are at times not paid in full. There is at present, no effective machinery to monitor the correctness of the margins to be collected and receipt of full payments from the brokers either. There is also no automatic mechanism which comes into play to prevent overtrading by the stock-brokers and emergence of crisis situations. Under the circumstances, it is felt that raising the amount of security deposits to reasonably higher levels at each of the Stock Exchanges can assist in providing protection against overtrading by the stock-brokers to some extent.

4.27 The Committee recommends that security deposits payable by an individual member at different Stock Exchanges be revised as under:

Bombay Stock Exchange—Rs. 1,00,000

Calcutta Stock Exchange—Rs. 75,000

Delhi Stock Exchange—Rs. 75,000

Madras Stock Exchange—Rs. 50,000

Ahmedabad Stock Exchange—Rs. 50,000

Other Stock Exchanges—Rs. 25,000

Such security deposits should be further stepped up by fifty per cent if the member wants to do business in "specified shares". It is also recommended that such security deposits should preferably be taken in cash and only in exceptional cases, they should be taken in approved liquid securities with a margin of 25 per cent. However, in no event, the membership card or the share's of the Stock Exchanges should be considered to be an approved security. All members shall have paid the prescribed security deposit in full before being admitted to the privileges of membership and permitted to carry on business in industrial securities and undertake underwriting of new issues. However, in case of new members, the facility of payment of the security deposit in two instalments may be given in deserving cases with such restrictions as the Governing Body may impose.

4.28 The Stock Exchange authorities should be vested with the power to collect, at their own discretion, additional security deposit from any member if the circumstances so warrant.

## 2. System of Net Capital Requirements or Liquidity Margins

4.29 Security deposits and *ad hoc* margins by themselves, will not be adequate to take care of the risks involved in the volume and the type of business conducted by each stockbroker. It is, therefore, necessary that in addition to the system of security deposit, a method is devised whereby a direct linkage is established between the volume and type of business done by a member and his financial resources and stake in the business. Such a system can be akin to the system of 'net capital requirements' as in USA or the system of "minimum liquidity margin" in UK but suitably modified so as to render itself easy for regulation. Under such a system, separate limits can be laid down for business in cash scrips "specified shares", business of underwriting of securities, etc. Any member failing to meet the minimum requirements for financial solvency should be either asked to merge with other broking firms or to surrender his membership to the concerned Stock Exchange. Details of such a scheme to evolve suitable standards of financial solvency and viability of the stockbrokers and the procedures for monitoring and review of such a scheme can be worked out separately by the Council for Securities Industry, outline of which has been given in the Annexure to the Chapter 7 relating to trading in securities on "Review of the Existing System of Byelaws and Regulations of the Stock Exchanges relating to trading in Securities and measures to ensure smooth functioning of the Stock Exchanges".

## 3. Annual Subscription for Membership of the Stock Exchanges

4.30 The annual subscriptions payable by the members of the Stock Exchange are inadequate and vary from Rs. 10 in Indore to Rs. 2,000 in Gauhati while there is no annual subscription for the members of the Delhi Stock Exchange. These low annual subscriptions and no subscriptions at all have, to some extent, led to poor financial position of some of the Stock Exchanges, which are providing a variety of services to the members for conducting their **business in securities. Incidentally, one of the factors** which encourages the members to remain inactive is also such low levels of annual subscriptions.

4.31 The Committee, therefore, recommends that the annual subscription of the members should be stepped up to a minimum of Rs. 2,500 for smaller and new Stock Exchanges. It should, in fact, be at least double the amount in case of the major Stock Exchanges of the country, in view of the relatively high volume of business and variety of services and amenities provided in such Exchanges.

## SECTION VI : PUBLICITY BY MEMBERS

4.32 There is at present, a blanket prohibition on members issuing an advertisement or circular relating to their stockbroking business. In fact, a stockbroker is not allowed to advertise for business purposes or issue circulars or other business communications to persons other than his own clients.

4.33 Realising, however, that investors need to be approached, the Stock Exchange Division, Ministry of Finance, clarified in May, 1974, that mass mailing by members to their own clients and others is permissible. The material mailed may comprise prospectus, application forms and literature regarding the new issues containing information based on the prospectus and plain matter of fact explanatory statement. The company concerned should be prepared to justify and accept full responsibility therefore, and for the material contained therein. It was also clarified that it should be the duty and responsibility of the company making the new issue to ensure that there is no breach of these requirements by the members of the Stock Exchanges.

4.34 The existing provisions relating to prohibition on advertisement by members need to be reviewed in the altered context of the imperative need to carry the cult of industrial securities all over the country. It is pertinent to observe in this connection that members are permitted to issue advertisements in the United States and United Kingdom but they are subject to a strict code of regulations issued in this behalf by the Stock Exchanges. The Committee recommends that the Rules, Byelaws and Regulations of the Stock Exchanges may be amended so as to permit members of the Stock Exchanges to issue advertisements for business purposes in newspapers or any other media, as in the USA and the UK. This may, however, be subject to suitable guidelines which may clearly be spelt out. Besides, copies of all the advertisements issued by the members may be kept for three years and open to inspection by the Stock Exchange authorities.

## SECTION VII : OTHER CONNECTED ISSUES

### 1. General provisions for admission to membership

4.35 The rules of the Stock Exchanges provide that a candidate for admission to membership has to be recommended by two members. Any member of the Stock Exchange can object to the admission of the candidate to the Exchange and convey the objections to the Governing Body. A member of the Bombay Stock Exchange can get duly elected only if he is approved by a majority of not less than two-thirds of the votes cast at the meeting of the Governing Body—at which not less than half of the total number of members of the Governing Body are present in addition to Government nominees, if any, attending the meeting. In case of Delhi Stock Exchange a member can get elected, if approved, by a majority of the votes cast in his favour at the meeting of the Governing Body. The Governing Body can in its absolute discretion reject any application for admission without assigning any reason. This is generally the position in case of other Stock Exchanges as well.

4.36 In view of the recommendations made above regarding educational qualifications, qualifying in a professional examination, training, etc., the rules relating to election of a member also will need to be suitably amended. A candidate for membership should only be required to give references of two reputed persons known to him regarding his honesty, integrity and financial resources and one of them may



be a member of the Governing Body or any other member having at least seven years' standing or a member under whom he has received training. It should also be sufficient if the candidate is approved by a simple majority of the members of the Governing Body of the concerned Stock Exchange. In the event of his candidature being rejected by the Governing Body, he shall have the right to appeal to the proposed Council for Securities Industry whose decision shall be final and binding in the matter.

4.37 The question of the financial institutions and the commercial banks being made eligible to become members of the Stock Exchanges was discussed at length. After a careful consideration of all the issues involved the Committee came to the conclusion that it would not be advisable to make them eligible for membership.

## 2. Right of nomination/transfer of shares

4.38 Membership of the Stock Exchange constitutes personal permission from the Exchange to exercise the rights and privileges attached thereto subject to the Rules, Bye-laws and Regulations of the Exchange. A member cannot assign, mortgage, pledge, hypothecate or charge his rights of membership or any rights or privileges attached thereto. However, the members of the Stock Exchanges, whether such Exchanges are associations of persons or limited companies have rights of nomination which are personal and non-transferable. A right of nomination is subject to the qualification, that if a member wants to nominate any eligible person of his choice as a candidate for admission in his place, he must be a member of not less than five to seven years' standing. In case his standing as a member is of lesser duration than seven years, he can only nominate his son for admission in his place, provided he is otherwise eligible and the Governing Body has no objection. The right of nomination is also available to heirs and other relatives of a deceased person with the sanction of the Governing Body. It may be mentioned that the Articles of Association of the Bangalore Stock Exchange and of the Stock Exchanges at Ludhiana and Kanpur provide that even in such cases, shares will stand, ipso-facto, forfeited if the transfer of such shares at par value to any of the applicants for the membership is not effected within such time as may be fixed by the Governing Body.

4.39 Such a right of nomination cannot, however, be exercised by any member who is expelled or has ceased to be a member or is a defaulter who is not re-admitted as a member within six months from the date of default and the same will vest in the Stock Exchange.

4.40 The right of nomination conferred on the members has, in some cases led to membership of Stock Exchanges being restricted to the members of the same family and the friends/associates of the existing members. This has in some cases, resulted in membership being passed on to persons who do not have required educational or professional qualifications or necessary training experience, etc. Such a hereditary system of membership is not in tune with the requirements for the growth of Stock Exchanges

as an integral part of the financial system of the country.

4.41 At present, the entry into the stockbroking business is very easy for family members, close relatives and employees of the existing members. There can not be any objections for such persons being members provided they are qualified otherwise. However, taking into account the imperative need to professionalise the membership of the Stock Exchanges, some modifications in the existing system of hereditary membership are essential. The Committee, therefore, recommends that the norms of eligibility for membership in regard to educational and professional qualifications, experience and practical training, etc., as recommended should also apply to persons becoming members on hereditary basis as well as to those who acquire membership through nomination.

4.42 Even though the membership of the Stock Exchanges is theoretically thrown open to everyone in the country, in reality, the entry to such a business is restricted. There is, at present, no other alternative for an aspiring candidate, possessing high educational and professional qualifications but to obtain membership by nomination through purchase of membership card in the Stock Exchanges at Bombay, Ahmedabad and Indore which are associations of persons, or shares in the Stock Exchanges at Calcutta, Delhi, Cochin, Bangalore, Ludhiana and Kanpur which are companies limited by share capital, at a heavy price from a resigning member or the legal successor of a deceased member or from those Stock Exchanges which dispose of the membership cards which vest in them on account of members who have been expelled or have defaulted. Under the circumstances, the existing system has led to profiteering from the sale of such cards or shares by the members or their relatives. More often, the successors of the deceased members or even the existing members who do not conduct any business for one reason or the other, hold on to their cards/share(s) as a means of investment in the hope that their prices will increase in future. The Committee is of the opinion that there is no justification to allow the existing members to make such personal gains through the sale of membership cards or shares.

4.43 The question of giving compensation for the goodwill of the outgoing members to their heirs/nominees was examined by the Committee as the membership cards or shares held by them shall have to be surrendered to the Stock Exchanges for the reasons stated earlier.

4.44 It may be mentioned in this context that, whatever goodwill a member may have built up would not have been possible, if the Stock Exchange concerned had not given him permission to trade on the floor of the Exchange, provided infrastructure facilities and the member would not have enjoyed the patronage of the investors. However, the Committee recommends that 50 per cent of the prevalent admission fee should be paid to the nominee/heir of the deceased member or to the resigning member, as the case may be, as compensation to the said member upon the surrender of the membership to the Exchange. This facility should also be extended to the existing members as well and, if necessary, the provisions of the Securities



Contracts (Regulation) Act/Rules may be suitably amended to give effect to the recommendations of the Committee in this matter.

### 3. Inactive Members

4.45 A peculiar system prevalent at the Stock Exchanges in the country is that a number of members remain dormant without doing any business but still retain their membership of the Exchanges. Such members continue to exercise voting rights for the selection of the members of the Governing Body. At the end of December 1983, the total number of members on all the Stock Exchanges was 2174 out of which 848 members were inactive representing 39 per cent of the total membership. As against this All-India average, the percentage of inactive members at the Stock Exchanges at Calcutta, Ahmedabad and Indore was 60 per cent, 61 per cent and 73 per cent respectively. Even in the newly established Stock Exchange at Ludhiana, the extent of inactive members was 62 per cent. Such inactive members should normally give up their membership. The Committee, is aware that such a voluntary renunciation of membership is not likely to be forthcoming. The Committee, therefore, suggests that the Securities Contracts (Regulation) Act/Rules should be amended for terminating the dormant membership. It should be provided that in case of a member who is inactive for a period of one year, the Governing Body would have the right to terminate his membership. In this context, the Committee recommends that the Ministry of Finance or the proposed Council for Securities Industry should lay down norms regarding the minimum amount of business (including subscription to new issues, buying and selling of securities, underwriting, etc.) for each member. These norms should, however, vary from one Exchange to another and may also be reviewed from time to time. In the event of termination of a member on the aforesaid grounds, it should also be provided that the member would have a right to appeal to the proposed Council for Securities Industry and its decision shall be final and binding of the member concerned.

4.46 From amongst the existing inactive members there are many instances where the membership cards are being held by the heirs/nominees of the deceased or a member who has retired from active operation. In all such cases, the Committee is of the opinion that they should be given two years' time to activate their membership. If they fail to do so, subject to the business norms as proposed above, their cards would be liable for termination by the Stock Exchanges. It may be clarified here that in the event of termination of an inactive card, the cardholder or his successor would be entitled to 50 per cent of the admission fee in vogue at the time of termination.

### 4. Partnerships and Companies

4.47 Under the rules of the Stock Exchanges only individuals can become members of the Stock Exchanges. However, the members of the Exchanges can form partnerships between and among them. The term "member" appearing in the Rules, Byelaws and Regulations of the Stock Exchanges also generally includes partnerships and firms. The obligations of

the members of the Stock Exchanges are generally unlimited. Hence the Securities Contracts (Regulation) Act and the Rules framed thereunder do not permit companies, whose liabilities are limited, to become members of the Stock Exchanges.

4.48 The Government of India published on February 3, 1984 a draft of the Securities Contracts (Regulation) Amendments Rules, 1984 inviting suggestions and objections from the public with regard to the admission of companies as members of the Stock Exchanges. According to the proposed amendments, a company can become a member of the Stock Exchange if : (i) it is formed in compliance with the provisions of Section 322 of the Companies Act, 1956, (ii) all the directors assume unlimited liability, and (iii) the company fulfils other conditions for admission as a member. Most of the Stock Exchanges have expressed reservations on the ground that admission of limited companies as members would lead to the concentration of business in the hands of a few financially powerful members to the detriment of others. In the considered view of the Committee this is a facile argument intended to protect the privileges enjoyed by a few members.

4.49 If the stockbroking business is to grow, the members will have to be efficient, financially strong and organisationally capable to handle larger volume of business, service increasing number of investors and offer them proper advice and guidance relating to their investment matters. This would be possible only if members have proper office accommodation and office equipment, communication facilities, adequate number of staff, facilities for research and analysis and interpretation of financial data, etc. Unless they have sufficient financial resources needed for the purpose, they cannot be expected to discharge their duties properly. Under the circumstances, if they have to expand and mobilise resources for the purpose, they will have either to form partnership firms or limited companies with others. It is true that small stockbrokers, lacking necessary resources form a considerable segment of the stockbroking community. As these members are, however, not in a position to render useful service to the investing public and to facilitate provision of letter and professional services to the investors, the Committee recommends that the Government should allow the limited companies to become members of the Stock Exchanges on the lines indicated by them. A majority of the Directors of such a corporate member should be members of the Stock Exchanges in their individual capacity and should also be shareholders of such a corporate member. Other Directors who are not members of the Stock Exchanges should be shareholders of the corporate member. All Directors should, however, have unlimited liability in respect of the business of the corporate member. The rates of admission fee, security deposit, annual subscription, etc., in respect of corporate members may be fixed at a higher level by the proposed Council for Securities Industry in consultation with the Stock Exchanges.

### (5) Municipal Membership

4.50 In view of the anticipated rapid growth of the capital market and the increasing awareness

amongst the investing public, it would be necessary to take urgent steps not only to increase the membership substantially but also develop a national securities market by linking all the Stock Exchanges on a national hook-up system. Such an integration of the markets would mean that prices of securities quoted on different Stock Exchanges would be readily available at all the Stock Exchanges; there would be instantaneous interflow of information among different markets; inter-market spread in arbitrage transactions will be narrowed; liquidity of securities will improve; large anticipated turnover of business will be easier to handle; enforcement of Rules, Byelaws and Regulations would be uniform; there would be better competitive environment and efficient working of the stock-broking firms; and prompt and efficient service at reasonable cost will be assured to the vast number of investing public. Under such a future set-up, membership confined only to one Exchange by law would become irrelevant and constitute a serious handicap to the evolution of such a national market. It is, therefore, suggested that to begin with, multiple membership may be permitted at the major Stock Exchanges. A member of a minor Stock Exchange may, however, be permitted to be a member of a major Stock Exchange.

4.51 To ensure a smooth transition to the eventual evolution of the national securities market over the next few years, it is suggested that members of Stock Exchanges should be encouraged to open branch offices at different places in the country excluding centres where minor Stock Exchanges are situated. Suitable criteria in this regard may be evolved by the proposed Council for Securities Industry. It is suggested that the provisions of the Securities Contracts (Regulation) Act may be suitably amended for the purpose.

#### (6) Functional Specialisation of Members

4.52 The present Rules, Regulations and Byelaws of the Stock Exchanges do not lay down any functional specialisation of members like brokers, jobbers, underwriters, etc. However, one notices that such functional demarcation has emerged over the period to some extent practically on all the major Stock Exchanges but more so on the Bombay Stock Exchange. Of course, such functional specialisation would understandably not be possible on the newly established Stock Exchanges in their formative stage when neither the volume of business nor the experience built-up would justify such a specialisation. If one, therefore, confines one's attention to a major Stock Exchange like Bombay, one would notice the broad categories of members according to the functions performed by them, as under:

- (i) Members who mainly deal in Government and semi-Government or Government guaranteed securities and other trustee securities not only on behalf of the banks and financial institutions, provident funds, charitable institutions, etc. but also occasionally on behalf of their other clients.
- (ii) Members who buy and sell securities on the floor of the exchange on a commission basis

on behalf of the clients and issue contracts to them in respect thereof.

- (iii) Members who buy and sell securities on their own account and do not have any worthwhile clientele of their own.
- (iv) Members who do business on behalf of their clients either in cash shares or "specified shares" or in both.
- (v) Members, though small in number, who are "budliwalas" or financiers providing cash or securities to the buyers or sellers of securities to fulfil their obligations to the markets technically and to enable them to carry forward their transactions to the next settlement.
- (vi) Members who specialise in arbitrage transactions in different Stock Exchanges to take advantage of differences in prices.
- (vii) Members who deal in odd lots of shares.
- (viii) Members who act as underwriters or brokers to the new issues of securities offered to the public.
- (ix) Members who are known as "taravaniwallas" who buy and sell securities and square-up the transactions mostly on the same day. In a way, they appear to "make the market" and provide liquidity but in reality they are not similar either to the "specialists" of the New York Stock Exchange or to the "jobbers" of the London Stock Exchange.

4.53 A major criticism against the stockbrokers in our country is that a majority of them concentrate too much of their attention on trading on their own account. This leads to frequent conflicts of interest between them and their clients. For example, it is alleged that they trade in clients' orders and often do not execute their orders at fair prices or effect deliveries of securities and make payments in respect of the sale proceeds of securities sold in time. Moreover, when an investor deals with this type of stockbroker, he has no means to know whether he deals with him as a dealer or as a broker. In fact, not much protection is afforded to the investor under the present provisions of the Securities Contracts, (Regulation) Act, Section 15 of the Securities Contracts (Regulation) Act, however, provides that no member can enter into a contract as principal with any person other than a member of a recognised Stock Exchange unless he secures in writing a consent or authorisation of such person and in case of closing out of an outstanding contract disclosing in the note or agreement of sale/purchase that he is acting as the principal. The provisions of this section are observed more in breach than in practice and do not really protect the interests of the investors. In most of the foreign Stock Exchanges, there are clearly defined rules that the orders of the clients on the books of a broker have to be executed before any order on account of the broker himself or on account of his partner, director or employee is executed. We suggest that similar rules may be incorporated in the Bye-laws and Regulations of the Stock

Exchanges. We also reiterate that every member should issue a contract note for each and every bargain put through with his clients.

4.54 Similarly, the contract note issued by the member must give separately the price at which the security (ies) is/are purchased/sold, the brokerage charged, the time at which the transactions was put through and also indicate whether the member is dealing with the client as a dealer or a broker.

4.55 To ensure proper compliance with the above provisions, the Stock Exchanges will have to set up a suitable machinery for inspection and audit of the business and activities of their members.

### (7) Increase in the Membership

4.56 The Government desires that the Committee should look into the question of membership with a view to effecting periodic increase in the size of membership of different Stock Exchanges. We share the concern of the Government in this regard and concur in the general view that the present number of stockbrokers, many of whom are inactive, is too small to service the growing volume of business and growing investor population in the country and must be increased. Otherwise, the standards of service may deteriorate to the detriment of the investing public. The Committee is of the considered opinion that the membership of the Stock Exchanges should be open, at any point of time, to a person who is fully qualified to be so. The Committee, therefore, recommends that the constitution of the Stock Exchanges should suitably be amended so as not to have any inbuilt hurdles in providing for the continuous increase in the membership of the Stock Exchanges. In this context, the Committee further recommends that the existing Stock Exchanges should be reconstituted as companies limited by guarantee and that the Stock Exchanges to be established in future should also be similarly constituted. The Committee also recommends that the Securities Contracts (Regulation) Act may be amended to give powers to the Government to direct the Stock Exchanges to increase their membership.

### (8) Specialists

4.57 While it is true that functions of most of the members of the Stock Exchanges are not properly demarcated, it is of vital importance to have a class of members who specialise in buying and selling of some securities allotted to them on the Stock Exchanges as is done by "specialists" of the New York Stock Exchange by giving two-way quotations of securities to the investors and members inter se and by acting as market makers in the securities they deal in. Such a class of "specialists" will also be able to offer two-way quotations for odd lots offered to them in the securities in which they specialise.

4.58 It is common knowledge that even though the Stock Exchanges in the country claim to provide liquidity and continuous market in securities, the available information relating to 3401 equity scrips

listed on all the Stock Exchanges, indicate that there are only 217 scrips which are actively traded every-day, about 396 scrips which are traded once in a fortnight, 954 which are traded once in a month and 959 which are traded once in a year.

4.59 The secondary market for debentures is not yet fully reactivated even though the primary market has shown a considerable spurt in activity mainly because of the buyback arrangements with the institutions. The market for preference shares has not revived yet despite increase in the rate of dividend as the companies are normally disinclined to issue such shares mainly due to tax implications.

4.60 The number of securities listed on the Stock Exchanges is increasing rapidly due to the large number of fresh issues of capital. There is also a wider distribution of share capital in small lots among investors across the country. It is, therefore, necessary to have a ready market for such securities to provide liquidity, price continuity and trading opportunities to the vast number of new investors if we have to sustain their newly generated interest in industrial securities. Such a ready market can be created if formation of a class of "specialists" is actively encouraged and brought into existence. However, such "specialists" will have to have adequate financial resources to undertake this responsibility as they will have to keep large inventory of securities in which they specialise. If necessary they should be extended credit facilities from the commercial banks.

4.61 The Committee recommends that the Reserve Bank of India be requested, in the public interest, to relax its policy of granting advances to the members of the Stock Exchanges in the case of members who act as "specialists", as a special case, and also permit commercial banks to grant liberal advances on the strength of the certificates issued by the Stock Exchanges concerned certifying that they are "specialists" in the specified securities. Similarly, it is also recommended that the financial institutions which are vitally concerned with the functioning of the Stock Exchanges should be requested to give a line of credit to this class of "specialists" and work out a suitable scheme to encourage them.

4.62 However, care will have to be exercised by the Stock Exchanges in the selection of such members to work as "specialists". Only those members whose past record is satisfactory and whose integrity and honesty is unquestioned and who have sufficient financial resources of their own should be selected. It is suggested that necessary rules, governing the requirements about their own financial stake, business dealings, records that will have to be kept by them, the information they will have to furnish to the Stock Exchanges, audit and inspection requirements in respect of their dealings, records, etc., be suitably framed on the lines of the Rules 103, 104 and others applicable to "specialists" in the New York Stock Exchanges, with suitable modifications that may be required to suit our local conditions.

**(9) Authorised Assistants|Clerks, Sub-brokers Licensed Dealers and Licensed Securities Agents**

4.63 For the healthy functioning of the Stock Exchanges, it is also necessary to regulate and control the activities of two classes of persons who are known as Authorised Assistants|Clerks (badge-holders) and sub-brokers as they are intimately connected with the business of the Exchanges.

**(i) Authorised Assistants|Clerks**

4.64 The authorised assistants|clerks who are badge-holders are entitled to enter the trading rings of the markets and conclude the bargains on behalf of the members with whom they are attached and also on their own account. Some of these authorised clerks also solicit business from the public. However, most of them are "taravaniwallas" who buy and sell securities on the floor of the Exchange and mostly square-up their transactions on the same day. Even though they are called clerks, many of them are not on the pay-rolls of the members with whom they are attached. They generally share with such members 50 per cent of the profits or losses they make in "taravani" business and 50—75 per cent of the brokerage earned on the business brought by them. At present, their activities are not regulated except to the extent that the members with whom they work are liable for all bargains made by them. Authorised assistants|clerks are not allowed to sign contract notes in their own or in other names or to sign on behalf of their employers unless they are appointed as their employer's constituted attorneys. The class of remisiers on the Stock Exchanges does not exist now and most of the existing remisiers are attached to the members as authorised assistants|clerks.

4.65 Although the members are responsible for all acts of the authorised assistants|clerks, some of the members disown their liability to the investing public when something goes wrong in spite of the fact that they issue contract notes and accept payments in respect of orders placed with them by the investing public through their authorised clerks. Sometimes payments in respect of securities sold by them are not made to the investors and when complaints are made, the general reply is that they are not responsible as they had paid the said amounts to the persons who brought the business for them even though they may be their authorised clerks. There is no justification for abdicating their responsibility for the acts for their authorised assistants|clerks during the period of service with them when they issue the contract notes in favour of the investors and accept payments from them for the purchase of securities and share profits or brokerage earned by such authorised clerks who bring business for them.

4.66 It is, therefore, necessary to amend the provisions of the Securities Contracts (Regulation) Rules and Byelaws of the Stock Exchanges in order to provide clearly for their enrolment, eligibility criteria, precise functions, duties and responsibilities and to provide that for any acts of commission or

ommission including negligence, frauds or any other acts of dishonesty of the authorised assistants|clerks, the members with whom they are attached, would be fully responsible, notwithstanding any private understanding or arrangements arrived at between the members and their authorised assistants|clerks.

4.67 The Committee also recommends that the following measures may be taken in regard to authorised assistants|clerks.

**(a) Security Deposit**

4.68 At present, there is no rule regarding security deposit payable by the authorised assistants|clerks even though they enjoy the rights of trading and use other facilities of the Exchange to do the business on their own account and on account of the general public. It is, therefore, suggested that they should be asked to place security deposit with the Exchange as under :

Rs. 10,000 at Bombay, Rs. 7,500 at Delhi, Calcutta and Ahmedabad, Rs. 5,000 at Madras and Rs. 2,500 at other Stock Exchanges.

**(b) Annual Subscription**

4.69 Any authorised assistant|clerk shall pay annual subscription to the Stock Exchanges as under :

Rs. 500 Bombay, Rs. 250 Delhi, Calcutta, Ahmedabad and Madras and Rs. 100 at other Stock Exchanges.

**(c) Additional Security Deposit**

4.70 If any authorised assistant|clerk not only trades on the floor but also deals with the general public as sub-broker and procures orders for the members, he shall be required to pay an additional deposit as under :

Rs. 10,000 at Bombay, Rs. 7,500 at Delhi, Calcutta and Ahmedabad, Rs. 5,000 at Madras and Rs. 2,500 at other Stock Exchanges.

**(d) Insurance**

4.71 The members of Stock Exchanges with whom the authorised assistants|clerks are enrolled, should also be required to take suitable insurance covers in respect of their acts and omissions, as may have been commonly stipulated by the Stock Exchanges.

**(e) Qualifications**

4.72. No authorised assistant|clerk shall be allowed to conduct business after 1987 either on behalf of the members with whom he is working or on his own account on the floor of the Exchange unless he has successfully completed certificate|diploma course conducted by the proposed Council for Securities Industry for the authorised assistants|clerks.

## (ii) *Sub-Brokers*

4.73 Due to the growing investment consciousness and preference for financial assets like company deposits, national savings certificates, units, investment in industrial securities, etc. a growing class of sub-brokers operating throughout the country, has come into existence. Such brokers solicit business not only for any particular member of any particular Stock Exchange but also other members of different Stock Exchanges as well. Earlier the members of the Stock Exchanges used to employ a separate class of persons known as remisiers to solicit business from the public, and elaborate rules governing their business and conduct are still found in the rules governing the Stock Exchanges. However, so far as the new class of sub-brokers is concerned they are not bound by any such rules of any of the Stock Exchanges. They share the commission or brokerage with the members of the Stock Exchanges with whom they deal. There are about 20,000 such sub-brokers operating in the country. A large number of them are fairly active in canvassing new issues of capital at centres like Amritsar, Jaipur, Rajkot, Surat, Varanasi, Patna, Nagpur, Baroda, etc. where there are no Stock Exchanges. They also issue contract notes to their clients in their own name in places where the Securities Contracts (Regulation) Act does not apply. In the context of the need to (i) tap rural savings for investment in industrial securities for a faster industrial growth, (ii) service the growing volume of business and the increasing number of investors, etc. It is imperative that the activities of the sub-brokers who deal in or canvass business in industrial securities are regulated and controlled and the sub-brokers are registered and brought within the discipline of the Stock Exchanges. Further, the stock-brokers should be made fully responsible and accountable for the dealings and the acts and omissions of the sub-brokers attached to them.

## (iii) *Licensed Dealers*

4.74 Section 17 of the Securities Contracts (Regulation) Act, 1956 provides for licensing of dealers in securities in areas where there are no Stock Exchanges and where the provisions of Section 13 of the said Act do not apply. With the fast spreading of investment cult to far-flung areas of all the States in the country it is of great importance that dealings in securities should be regulated on an All-India basis for protecting investors' interests and to mobilise savings for investments in industrial securities. Therefore, no person whether sub-broker or not, should be allowed to deal in industrial securities anywhere in India without obtaining a licence for dealing in industrial securities from the proposed Council for Securities Industry of the Government. There will have to be a strict selection machinery to select licensed dealers. Only those who have adequate knowledge of financial instruments or industrial securities and are of sound financial means to place a security deposit of Rs. 25,000 with the Regional Stock Exchange should be given the licence.

4.75 It may not be necessary, in the initial stages, to introduce any rigid standards of education, training

or experience in industrial securities in their case. However, they should be required to undergo an induction programme of at least a fortnight's or a month's duration organised at any of the Exchanges within 6 months of their obtaining a licence to act, as a dealer. Unless a dealer so licensed completes his induction programme he should not be allowed to function as a dealer in industrial securities after 6 months from the date of his admission as a dealer. The dealers should also be required to pass a suitable examination or professional test which the Stock Exchanges or the proposed Council for Securities Industry may conduct and go through such training programmes as may be stipulated within a period of 3 years of their becoming licensed dealers, unless they are exempted from passing such an examination or such a training on merits. Contract notes issued by the licensed dealers will have to indicate separately the price at which the securities are bought or sold and the brokerage or commission charged. They will be subject to the relevant Byelaws and Regulations of the Stock Exchanges.

## (iv) *Licensed Securities Agents*

4.76 In the opinion of the Committee, apart from the licensed dealers, it will be useful to have a class of licensed securities agents situated at places where there are no Stock Exchanges and where the secondary market is not well developed. The functions of such agents should only be to canvass new issues of industrial securities and to assist the investors in documentation relating to transfer of securities, filling up of the application forms for new issues, consolidation of holdings, etc. The Committee recommends that agents of the Unit Trust of India, Life Insurance Corporation and General Insurance Corporation and its subsidiaries may be licensed/registered for this purpose. The modalities of this scheme may be worked out in consultation with the concerned institutions.

## (10) *Gratuity Fund*

4.77 There is at present no system of gratuity fund for the members of the Stock Exchanges in India. Such a scheme will be useful for them having regard to their limited means, uncertainty about the income, etc. The Committee, therefore, is of the view that a gratuity fund for the members may be established in each of the Stock Exchanges and every member should be asked to contribute a fixed amount to the fund with the proviso that anybody who wants to contribute more to the said fund for the benefit of other members could do so voluntarily. In case, any member who has contributed to the fund expires, a fixed amount from the fund can be paid to the family of the deceased member over and above the amount represented by voluntary contributions per member which may be fixed by the body administering the fund, depending upon the period of membership of the deceased member. The scheme for such a gratuity fund can be framed by the proposed Council for Securities Industry.

## (11) *Audit of the Accounts of the Members*

4.78 Under Rule 15 of the Securities Contracts (Regulation) Rules, 1957 the members are required

to maintain certain books of accounts and other documents. The Government of India have issued in May 1984 guidelines for the annual audit of the said books of accounts and documents of the active members of the Stock Exchanges from the financial year commencing from April 1, 1984.

4.79. It is advisable that the Stock Exchange authorities should also, whenever they deem fit, arrange for surprise audit and inspection of the books of accounts and documents of any member, who in their opinion, is indulging in over trading. Similarly, they should frequently exercise the authority to inspect and audit the "sauda" books of any authorised assistant clerk (badgholder) who in their opinion is manipulating accounts and indulging in other malpractices such as under-reporting of transactions, etc.

4.80. For the above purposes, the Stock Exchanges will have to evolve a suitable machinery of inspection and audit, such as a special task force, which can carry

out such inspection or audit on the spot. The secretariat of the Stock Exchanges should, therefore, in our opinion, establish a separate audit-cum-inspection cell to carry out such functions. The Stock Exchanges should also establish a special panel of outside auditors for the purpose. The report of such inspection and audit cell should be placed regularly before the meetings of the Governing Bodies and suitable steps must be taken promptly to correct the situation.

## **(12) Disputes Among Members of Different Stock Exchanges**

4.81. Disputes often arise between the members of one Stock Exchange and those of the other Stock Exchanges and claims and counter-claims are made. There is, at present, no satisfactory machinery to resolve such disputes or claims and counter-claims. It is, therefore, suggested that such disputes or claims/counter-claims should be referred to the proposed Council for Securities Industry and its decision should be final and binding on the members.



## CHAPTER 5

### LISTING OF INDUSTRIAL SECURITIES

5.1 The number of public limited companies at work went up from 6663 as on 31st March, 1961 to 12526 as on 31st March 1984. As against this, as indicated in the statement on the companies at work given in Annexure 6, Volume II the number of listed companies went up from 1203 as on 31st December 1961 to 3882 as on 31st December 1984. The following table gives some important information relating to listed companies for the years 1961 and 1984 :

| As at December                                                   | 1961   | 1984   | Percentage increase in 1984 over 1961 |
|------------------------------------------------------------------|--------|--------|---------------------------------------|
| 1. No. of listed companies                                       | 1,203  | 3,882  | 222                                   |
| 2. No. of Stock Issues of Listed Companies                       | 2,111* | 5,485* | 160                                   |
| 3. Paid-up Capital of Listed Companies (Cr. Rs.)                 | 675    | 5,082  | 653                                   |
| 4. Market value of Paid-up Capital of Listed Companies (Cr. Rs.) | 1,216  | 9,984  | 721                                   |

\*Include 149 Debenture issues in 1961 and 541 Debenture issues in 1984.

(Source : Stock Exchange Foundation Bombay)

The requirements with regard to listing of securities on a recognised Stock Exchange are governed by Rule 19 of the Securities Contracts (Regulation) Rules, 1957 Annexure 7, Volume II. The administrative guidelines issued by the Government for listing of securities in relaxation of Rule 19(2)(b) of the Securities Contracts (Regulation) Rules are given in Annexure 8, Volume II.

5.2. Listing of securities on a Stock Exchange refers to the process of grant of admission to trading in a Stock Exchange. A company derives several benefits by listing its securities on a Stock Exchange. Some of the main benefits of listing relate to creation of a competitive market for the investors for their securities provision of liquidity to the securities, protection in dealings in the securities for the investors, access to the capital market for raising further finance from the public, building up of a reputation to the company by way of official quotations in the Stock Exchanges, lower interest rates on loans advanced by the public financial institutions, tax concessions, etc. In view of the several benefits attached to listing, the Securities Contracts (Regulation) Rules have prescribed a number of safeguards/conditions before the securities are admitted for dealings on a Stock Exchange.

5.3. A company seeking enlistment on a Stock Exchange has to apply to the regional Stock Exchange as well as to the other Stock Exchanges wherever it wants enlistment, alongwith the prescribed documents (Annexure 9, Volume II). This procedure is not only time-consuming but also involves considerable unnecessary expenditure for the companies. It has been observed that there is scope for simplification in this regard. Since all the recognised Stock Exchanges are regulated by the provisions of the Securities Contracts (Regulation) Act, 1956 and the Securities Contracts (Regulation) Rules, the existing procedure of making listing applications to all the concerned Stock Exchanges may be changed to provide for making the listing applications alongwith the prescribed documents only to the regional Stock Exchange i.e. the Stock Exchange nearest to the place where the registered office of the company is situated. However, the company will be required to submit a simplified listing application alongwith the essential information regarding the company and the proposed public issue of capital to all the other Stock Exchanges where it wants its securities to be listed. As soon as the regional Stock Exchange grants listing to the securities of a company, the other concerned Stock Exchanges should also grant listing automatically subject to the payment of listing fees by the company. The regional Stock Exchange should inform the other concerned Stock Exchanges regarding the approval for listing of securities of a company on the day of the said approval. The format of the main listing application to the Regional Stock Exchange and the simplified application to the other concerned Stock Exchanges should be uniform. Similarly, the procedures and practices adopted by the Stock Exchanges in the grant of listing should also be uniform. In order to ensure, inter-alia, proper scrutiny of the listing applications, all Stock Exchanges should have a qualified secretary as the secretary of the Exchange. In case the listing formalities are complete in all respects, then the Stock Exchanges should not take more than three working days for admission of securities to dealings on the Exchange. Also, the objections to the listing applications, if any, must be raised only once by the Stock Exchanges to expedite the process. To provide guidance to companies seeking listing and to reduce objections to the minimum possible level, the Committee recommends that a guidance cell be established in every Stock Exchange. A uniform check-list containing standard set of norms required by the Stock Exchanges in respect of formalities to be completed by the companies regarding listing should also be prepared. The check-list should specify the various provisions required by the Stock Exchanges to be incorporated in the Company's Memorandum and Article of Association prospectus, etc.



5.4 At present, listing of securities on a Stock Exchange is optional for the companies. However, the Government has power to compel listing of securities by the public limited companies under Section 21 of the Securities Contracts (Regulation) Act. According to this Section, if the Government is of the opinion having regard to the nature of the securities issued by any public company, or to dealings in them, that it is necessary or expedient in the interest of the trade or in the public interest so to do, it may require the company to comply with such requirements as may be prescribed with respect to the listing of its securities on any recognised Stock Exchange. The powers under Section 21 of the Securities Contracts (Regulation) Act have not so far been used by the Government. The Committee, however, notes that even at present the financial institutions prevail upon companies, in suitable cases, seeking their assistance to have their securities listed on a Stock Exchange. Similarly, the Controller of Capital Issues also directs companies in appropriate cases, while granting permission for issue of capital, to get their securities listed on a stock Exchange. While financial institutions and the Controller of Capital issues may pursue this policy vigorously, the Committee suggests that powers under Section 21 of the Securities Contracts (Regulation) Act should be used in the following cases :

- (i) where the companies raise terms loans (excluding foreign currency loans) debentures from the financial institutions (all India and State level) or raise resources by way of issue of shares/debentures of Rs. 3 crores or more in the aggregate, outstanding any time; and (ii) the companies have a networth of more than Rs. 1 crore and have made profits (before tax) in at least 3 years out of the last 5 years. In case the companies had made losses in the last 2 years, such companies might either be exempted from the compulsory listing or they may be given more time for listing of their securities.

It should be binding on the companies themselves to implement these provisions. However, the Companies Act, 1956 and the Securities Contracts (Regulation) Act, 1956 may be amended suitably to ensure compliance of these provisions.

It is observed that some companies required to be listed as per the aforesaid network criterion have a small capital base but large reserves. With a view to increasing the size of the public offer and also to compensate the promoters, the Committee recommends that the existing bonus guidelines may be reviewed at least for these companies so as to permit them to issue bonus shares in the ratio exceeding 1 : 1.

In the cases referred to above, whenever such companies seek institutional finance, the institutions should disburse funds only after obtaining the necessary Board resolutions from them to list their securities within one year of disbursement of loans from the financial institutions. The existing wholly owned subsidiaries of listed companies, should also be compulsorily listed, if the same conditions and criteria as at (i) and (ii) above are satisfied.

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5.5 According to the present listing guidelines, a company can get listed with a minimum paid-up capital of Rs. 20 lakhs except for investment and leasing companies where the requirement of minimum paid-up capital is Rs. 1 crore. Taking into account the general rise in prices, the cost of public issue, and the need to have a larger volume of floating stock in the market for trading purposes, the Committee suggests that the minimum paid-up capital of a company for eligibility for listing should be raised from the existing level of Rs. 20 lakhs to Rs. 50 lakhs. As regards non-banking financial companies which come under the purview of regulations of the Reserve Bank of India, the Committee suggests that the minimum paid-up capital of such companies for eligibility for listing should be Rs. 1 crore.

5.6 At present, a listed company will continue to enjoy enlistment even if the number of public shareholders become negligible in the course of time. According to the guidelines for listing, the public offer should result in a wide distribution of shares among the general public with the company having at least (i) 10 public shareholders for every Rs. 1 lakh of fresh issue of equity capital and (ii) 20 public shareholders for every Rs. 1 lakh of offer for sale of existing capital. These conditions apply only if the issue or offer for sale is either not underwritten or only partially underwritten by public financial institutions, nationalised banks (including State Bank of India and its Subsidiaries) and State Government agencies. However, the minimum number of public shareholders prescribed for enlistment of investment companies is 2,000 for a paid-up capital of Rs. 1 crore the number of shareholders increasing proportionately with the increase in the paid-up capital. It is also provided in the guidelines for enlistment of investment companies that the shares of these companies shall be delisted if the number of the shareholders other than promoters falls below 1,000 for a company with paid-up capital of Rs. 1 crore. There are many instances of listed companies where the number of public shareholders or the percentage of public shareholding has become negligible immediately or after some time of the grant of listing. In such situations, continued listing of such companies does not seem to be justified since the public interest in such companies is minimal. Therefore, the Committee is of the view that a minimum number of public shareholders and public shareholding should be prescribed for every listed company for continued listing. It is accordingly suggested that a listed company should be delisted after giving six months' notice if the number of public shareholders falls below five for every Rs. 1 lakh of equity capital offered to the public or if the public shareholding falls below 50% of the public offer. The six months' notice should help the management/promoters of the companies to offload their holdings to the general public through the Stock Exchanges in order to maintain the required number of public shareholders as also the required percentage of public shareholding for continued listing. However, it is recognised that on account of devolvement of capital arising out of underwriting obligations on public financial institutions and market purchases by these institutions the number of public shareholders or their percentage of shareholding may fall below the required levels for continued listing of



companies. In such cases the companies will not be delisted because of the factors mentioned above.

5.7 All the companies seeking listing have to execute a listing agreement with the Stock Exchange. A copy of the listing agreement is given in Annexure 10, Vol. II. The Committee also considered the question of delisting of securities on the ground of violation of the provisions of the listing agreement by the companies. Although the Stock Exchanges can delist the securities in such cases, such a course of action may not always be in the interest of the public shareholders and institutions which have shareholdings in such companies. In view of this, the Committee is of the view that any violation of the provisions of the listing agreement should be made an offence punishable by the Stock Exchanges by levy of fine by them directly under their bye-laws or by instituting suitable proceedings in a court of law. In the latter case, prior approval of the Government must be obtained by the Stock Exchange. The Committee recommends that suitable provisions should be incorporated in the Securities Contracts (Regulation) Act in this behalf.

5.8 At present, the listing fees payable by the companies are not uniform in respect of all the Stock Exchanges. Listing fees are levied on companies for the services rendered by the Stock Exchanges to the companies and their shareholders. Therefore, the listing fees should not be viewed only as a source of income for the Stock Exchanges. The Stock Exchanges may have to augment their revenues by different methods such as raising initial admission fees and annual subscription fees payable by the members, proper pricing of the services/stationery/accommodation provided to the members, etc. All the same, the Committee is of the view that the annual listing fees payable by companies should be uniform as given below for all the Stock Exchanges :

| Size of Companies                                                       | Rupees |
|-------------------------------------------------------------------------|--------|
| Companies with paid-up share and/or Debenture capital, upto Rs. 1 crore | 3,000  |
| Above Rs. 1 crore and upto Rs. 5 crores                                 | 6,000  |
| Above Rs. 5 crores and upto Rs. 10 crore.                               | 10,000 |
| Above Rs. 10 crores and upto Rs. 20. crores                             | 20,000 |
| Above Rs. 20 crores and upto Rs. 50 crores                              | 30,000 |
| Above Rs. 50 crores                                                     | 50,000 |

It is also recommended that the initial listing fee payable by a company should be increased to Rs. 5,000 from the present level of Rs. 2,000.

5.9 At present majority of the listed companies are listed with the major Stock Exchanges at Bombay, Delhi, Calcutta, Ahmedabad and Madras. The Committee is of the opinion that with a view to ensuring balanced development of all the Stock Exchanges, improving liquidity of industrial securities and facilitating easy transferability thereof, the

scale of listing fees in respect of the Stock Exchanges other than the first two Stock Exchanges including the regional Stock Exchange, should be 50 per cent of the listing fees, both initial and annual, mentioned in para 5.8 above. The Committee also suggests that all existing listed companies and companies seeking enlistment of their securities on the Stock Exchanges having a paid-up capital of Rs. 5 crores or more should be required to be listed on at least two Stock Exchanges, including the regional Stock Exchange. Further, all existing listed companies should statutorily be required to be listed compulsorily on the Stock Exchange of the State/area where the registered office or the main works/fixed assets of the company are situated.

5.10 There are several instances of companies raising capital from the public through issue of prospectus without getting the shares listed on the Stock Exchanges. The public shareholders in such companies do not enjoy the benefits of easy marketability and transferability of shares as in the case of listed shares. Therefore, the Committee is of the view that all companies which raise capital through prospectus should statutorily be required to get their securities listed compulsorily provided their paid-up capital meets with the minimum requirements prescribed in this regard.

5.11 It has been observed that some of the listed companies were not giving timely and complete information to the Stock Exchanges regarding consideration of bonus, rights issue and dividend. It has been also noted that there was no uniform practice followed by the companies in regard to placing of these matters at their Board meetings for consideration. Since such matters are price sensitive and are of vital importance to the investors, it is absolutely necessary to streamline the procedure relating to consideration and recommendation of these matters by the Board of Directors and intimation to the Stock Exchange. The existing provisions in clauses 19 and 20 of the listing agreement have to be amended suitably to make them fool-proof to ensure that the companies make timely and complete disclosure to the Stock Exchange so that there is no scope for misuse by anyone.

5.12 At present the listing requirements/guidelines do not stipulate any minimum period for which the management/promoters should hold their shares after enlistment. It would be in the interest of the growth of new companies that the management/promoters continue to hold shares at least for the first three years from the date of listing in order to ensure their involvement in the company. Accordingly, the Committee suggests that suitable provisions should be incorporated in the listing guidelines/consent issued by the Controller of Capital Issues that the promoters/management/promoters of the companies should not sell/transfer/mortgage/hypothecate their shares at least for a period of three years from the date of enlistment on the Stock Exchanges. It is also suggested that the provisions of the listing guidelines/consent issued by the Controller of Capital Issues should also make it obligatory for the companies to make suitable endorsement to that effect

on the share certificates issued to the promoter/management group of the companies.

5.13 Listing of securities on the Stock Exchanges will not be meaningful unless the companies make periodic disclosure of their financial results for the information of the public. Accordingly, the Committee suggests that all listed companies should be required to furnish unaudited financial results in the prescribed format on a half-yearly basis within two months of the expiry of each of the six months' period of the accounting year. Besides, the companies with a paid-up equity capital of Rs. 10 crores or more should be required to furnish quarterly results within two months of the expiry of each quarter of the accounting year. Such information should be published in at least one national daily and in one or more regional newspapers of the State where the registered office of the company is situated. The above requirement should be embodied in the listing agreement with the Stock Exchanges.

5.14 Private placement of capital is one of the methods of raising capital from the public by the listed companies. In order to protect the interests of the investors, the Committee suggests that suitable guidelines for private placement of securities should be evolved. While granting approval for private placement of capital, Government should ask for information regarding : (a) the amount proposed to be subscribed by original promoters, and (b) the amount proposed to be subscribed by other firm allottees. The Committee is of the view that the Government should stipulate that the shares shall not be transferable for a period of the first three years in the case of shares subscribed by the original promoters. This fact should be prominently super-scribed on the share certificates.

5.15 It has been observed that there are several medium and small companies which cannot get their shares listed on the Stock Exchanges for various reasons. Most of these companies have several public shareholders. Therefore, it is necessary to provide a market for these shareholders, which would eventually encourage such companies to come into the listing fold. Accordingly, the Committee suggests that the feasibility of development of an Unlisted Securities Market (USM) on the lines of such a market in the U.K. may be explored.

5.16 Under the Companies Act, 1956 two types of companies may be registered viz., a private company and a public company. An important feature of a private company is that its Articles provide for restriction on the right to transfer its shares under Section 3(1) (iii). As per Section 3(1) (iv), a public company means a company which is not a private company. According to Section 82 of the Companies Act, 1956, the shares or other interest of any members in a company shall be movable property, transferable in the manner provided by the Articles of the Company. Where a company has no Articles of its own, the Regulations in Table A of Schedule I will apply. Under Clause 21 of the Table A (Schedule I) of the Companies Act, 1956, the Board may, subject to the right of appeal conferred by

Section 111, decline to register transfer of shares in the following cases :

- (a) transfer of a share, not being a fully paid share to a person of whom they do not approve, or
- (b) any transfer of shares on which the company has a lien.

Section 111 of the Companies Act, 1956 contains provisions relating to the power of the companies to refuse registration of transfer of shares or interest of a member in, or debentures of, the company. It has been brought to the notice of the Committee that the Articles of Association of some companies have provisions giving certain powers only to some specified directors which tantamount to powers of veto overruling the majority decision of the Board. There may also be some other restrictive provisions in their Articles of Association. The Committee feels that these types of provisions are not in tune with sound corporate practice and therefore suggests that the companies having such provisions in their Articles of Association should not be listed unless their Articles are suitably amended so as to ensure that majority decision of the Boards shall always prevail in all the matters relating to the affairs of such companies.

5.17 The Committee feels that there should be free transferability of shares as a matter of principle in case of all listed companies. However, provisions contained in the Companies Act and/or Monopolies Restrictive Trade Practices Act for regulating take-over bids of listed companies resulting from free transfer of shares to prevent destabilisation of good managements may be reviewed and suitably strengthened. At the same time, these provisions may not always be fool-proof. The Committee, therefore, recognises that some problems may arise in curtailing the right of the Board of Directors of a company to refuse transfer of shares. Nevertheless, the Committee suggests that as an immediate measure, especially to protect the small shareholders and to improve liquidity and facilitate free transferability of shares, the Board of Directors of a listed company should not refuse to register the transfer of shares upto the nominal value of Rs. 10,000 subject to the condition that the total holdings of the transferee either individually or jointly shall not exceed the nominal value of Rs. 25,000. The limit of Rs. 25,000 will not, however, be applicable to the institutions mentioned in Rule 19(2)(b) of the Securities Contracts (Regulation) Rules, 1957. The Committee is, however, glad to note that the Securities Contracts (Regulation) Act has since been amended providing for free transferability of listed securities. Adequate safeguards against undesirable take-over bid or destabilisation of managements have, however, been provided for. Companies would be entitled to refuse registration only in certain circumstances such as when the instrument of transfer is not proper or has not been duly stamped and executed or the transfer is in contravention of any law or is likely to result in change in the composition of the Board of Directors in such a way that it would be prejudicial to the interests of the companies or

to public interests. The amendment further provides that in case a company wishes to refuse transfer of securities on the ground that any requirement under law has not been complied with, it has to notify the transferor and the transferee at the same within two months from the date of lodgement of the instrument of transfer. In other cases, the company will have to make a reference to the Company Law Board and act according to the directions of the Board.

5.18 The Committee recognises the importance of dissemination of information regarding listing requirements, listing guidelines and listing agreements for the benefit of companies, merchant bankers, investing public, etc. It is, therefore, suggested that the Stock Exchanges should bring out periodically an updated brochure on these items and give due publicity thereof. The Stock Exchanges should also be required to make an annual review of the compliance of the provisions of the listing agreement, publicise the names of the companies which have not complied with these requirements and submit a report to the Government in this regard.

5.19 At present, the companies have to incur avoidable expenditure on sending annual reports and other documents to the shareholders holding only a few shares and in some cases only one share. With a view to minimising the cost of servicing the shareholders the Committee recommends that the minimum lot of transfer and sub-division should be stipulated which should correspond to the market unit of trading.

5.20 A number of companies are reported to be not complying with the listing requirements relating to issue of refund orders and allotment letters within the period of ten weeks from the date of closure of the subscription list. The Committee, therefore, recommends that Stock Exchanges should ensure due compliance of these requirements by the companies in time. If any of the companies fails to do so, such companies must be required to pay interest on the amount to be refunded at the rate of 15 per cent per annum from the expiry of ten weeks from the date of closure of the subscription list till the actual date of posting of the refund order. Due compliance of these requirements should be certified by the Auditors of the company and a copy of the certificate be furnished to the Stock Exchanges.

5.21 Section 73 of the Companies Act, 1956, at present, requires securities of a company to be admitted for dealings within ten weeks from the date of closure of the subscription list. The Committee recommends that the said Section may be amended empowering the regional Stock Exchange to extend such period, in suitable cases on merits.

5.22 The Committee is also of the opinion that the listing agreement be amended to incorporate the following provisions :

- (i) The company agrees to notify the Stock Exchanges of any acquisition or disposition by the company or by its subsidiary of shares of another company or other transactions resulting in such company be-

coming or ceasing to be a subsidiary company.

- (ii) Where a Chairman's address or other announcement has been prepared in advance for release at a meeting of a company, the company agrees to deliver copies of the same to the Stock Exchange for release by the time of the meeting. Any other announcements or statements which could affect the price of the company's securities and which are made at a meeting of the company must be furnished to the Stock Exchanges immediately following the meeting.

- (iii) The company agrees to, when so requested by the transferee at the time of lodgement of a registrable transfer of securities of the company, to despatch the certificates in respect of those securities to the lodging broker.

5.23 Rule 19(2)(a)(iv) of the Listing Agreement provides that there will be no forfeiture of unclaimed dividends before the claim becomes barred by law. This provision is not in consonance with the provisions of Section 205A of the Companies Act, 1956. The Committee, therefore, suggests that the above Rule may either be deleted altogether or be amended in accordance with Section 205 of the Companies Act, 1956.

5.24 Presently an approval is required to be obtained from the Government by each of the Stock Exchanges before the securities of a company proposed to be enlisted under the proviso to Rule 19(2)(b) of the Securities Contracts (Regulation) Rules, 1957 whenever the public offer falls below the prescribed percentage. The Committee is of the opinion that this approval need be obtained only by the regional Stock Exchange and that the same approval should automatically apply to the other Stock Exchanges where the securities of the company are proposed to be enlisted. The Committee recommends that the said Rule may be amended suitably.

5.25 The Committee has observed that some companies issue fractional certificates whenever bonus or right shares are issued. Issue of fractional certificates results in considerable inconvenience to the investing public as they have either to dispose them of in the market or buy additional certificates from the market so as to have a consolidated single certificate. The Committee is of the opinion that as far as possible whenever bonus or right shares are issued by a company it should be done in such proportions that the issue of fractional certificates is reduced to the minimum. The Controller of Capital Issues should also ensure this while conveying his sanction for the issue of bonus or right shares. In respect of the residual fractional certificates companies should transfer all such certificates in the name of a trustee who should dispose of all these certificates in the market at around the ruling market rate and make a proportionate payment in cash from the net proceeds thereof to all shareholders who are entitled to such fractional certificates.

## THE COST OF PUBLIC ISSUES OF INDUSTRIAL SECURITIES

## SECTION I : INTRODUCTION

6.1 It is heartening to note that the capital market which is one of the main agencies to mobilise resources of the community for the private corporate sector has displayed, during the last four years, encouraging trends, aided by a welcome change in the investors' psychology and consequent satisfactory public response to the capital issues, of both the new and the existing companies. This period also witnessed aggressive salesmanship and adoption of innovative marketing strategies by those connected with the public issues. There was a spate of convertible and non-convertible debenture issues and their popularity and frequency accelerated the tempo of capital issues consents. Helpful policies of the Government, sustained bullish uptrend on the Stock Exchanges since 1980, growing institutional support, particularly to the non-convertible debenture issues, etc., also aided the unprecedented buoyancy in the new issue market. It is highly desirable that these favourable developments in regard to the capital market for industrial securities are nursed and sustained in view of the very large order of resources that may have to be raised for ensuring rapid growth of the private corporate sector during the Seventh Plan period and beyond. It is imperative, at the same time, to ensure that the cost of raising fresh resources from the community, which is an index of their use, is kept under constant watch and measures are taken from time to time to keep it under reasonable control. This is all the more important because if the present tempo of consents to issue fresh capital continues, as stated earlier, it would mean mobilisation of at least Rs. 10,000 crores per annum through the channel of the new issue market by the end of this century. Assuming even an average 10 per cent cost of the mobilisation of this order, it would result in an outgo of Rs. 1,000 crores per annum on this account, which is quite staggering—to say the least. Since a substantial part of the cost is going to accrue as income to only a limited number of agencies on account of the imperfections of the existing system, the implications thereof, are quite obvious.

6.2 The examination of the cost of public issues in this chapter relates to the public issues of shares and debentures made by the companies through prospectus and offered to the public. Such issues of capital are made both by the new as well as the existing companies. The new companies come up with initial issues while the existing companies make further issues of capital. The issues of capital by both the new and the existing companies comprise different types of securities such as equity shares, preference shares and debentures, both convertible and non-convertible. It may be mentioned, in this context, that the new companies generally issue equity shares and

some times preference shares, but rarely debentures. The amounts of capital raised security-wise by way of new issues both by the new and the existing companies since 1970-71 is given in Table No. 12.

6.3 The said table reveals that the amount of equity capital offered to the public through prospectus increased from Rs. 21.7 crores in 1971-72 to Rs. 48.3 crores in 1975-76 and hovered around Rs. 40 crores until 1980-81 except for a high figure of Rs. 54.4 crores noted for 1977-78 and a low figure of Rs. 24.6 crores in 1976-77. There was a quantum jump in the issue of equity capital to the public in the subsequent two years to Rs. 131.4 crores in 1981-82 and Rs. 110.1 crores in 1982-83. However, the amount of preference capital issues declined almost continually during 1971-72 to 1982-83 from Rs. 6.9 crores to Rs. 1.5 crores indicating thereby that this security is no longer popular with the investing public. The amounts of debenture issues which remained quite modest all along until 1979-80, spurted thereafter to Rs. 168.5 crores in 1981-82. Although there was a decline in these issues to Rs. 93.7 crores in 1982-83 the decline was merely statistical in nature in view of the fact that issues of several debentures of substantial amounts were made on a rights basis to the existing shareholders.

6.4 The cost of public issues is made up of expenses incurred on various items which can be classified into two major categories of pre-issue and post-issue expenses. All these expenses can be divided between "mandatory costs" which a company has to incur for making the public issue such as payment of : (a) underwriting commission (if the issue is underwritten), (b) brokerage, (c) fees of the managers to the issue, (d) statutory press announcements, (e) listing fees, and (f) stamp duty on mortgages and the "variable costs" such as the cost of printing, stationery, publicity, mailing expenses, other charges such as legal and auditors' fees, charges for the Registrars to the Issue, etc. In regard to cost of public issues of capital, apart from the above noted financial expenses, the term "cost" has also a much broader connotation and comprises real costs such as material costs of precious paper and newsprint and manpower costs in terms of burden cast on officers and other employees of the issuing companies and on already overstrained banking and postal systems etc.

6.5 Another angle from which the "cost" of public issues of industrial securities needs to be closely examined is whether the "cost" as is incurred today is justified or reasonable with reference to the major objective of resource mobilisation, creation of investment consciousness among the general public, both in

urban and rural areas, geographical spread of mobilisation efforts, etc. An examination of these various aspects of the "cost" of public issues would also be directly or indirectly covered in one way or the other in this chapter.

6.6 The Department of Company Affairs, Government of India, in their Annual Reports on the Working and Administration of the Companies Act, 1956, published every year provide information on the cost of public issues in relation to the total costs of the projects and in relation to the amounts of capital offered to the public. This information is given in Tables No. 13 and 14. Even though these statistics are compiled from the prospectuses filed by the companies with the Registrars of Companies with a different purpose in view and such statistics bear, many times, no relationship with the actual cost incurred, a cursory glance at this Table shows that the cost of public issues is on the increase. The cost of issues of the new companies in relation to the amount of capital offered to the public nearly doubled from 5.39 per cent in 1970-71 to 8.7 per cent in 1982-83. During the same period, the cost of issues of existing companies nearly doubled from 5.9 per cent to 13.0 per cent. This upward trend is certainly a matter of concern. However, in order to have a more meaningful and a realistic picture of the cost of public issues made in the recent past a representative sample of about thirty companies belonging to a cross section of industry which made public issue of shares, convertible bonds and non-convertible debentures is taken and their cost of issues is tabulated in Table No. 15. Despite some of the obvious limitations of these data on account of possible discrepancies that may have crept in the classification of cost items for bringing about uniformity in presentation and some of the possible omissions of some of the smaller cost items, the information given in the Table No. 15 is sufficiently indicative of the nature of costs incurred in recent years by the companies belonging to different industries and size groups.

6.7 The analysis reveals that the cost of the recent public issues of equity capital fluctuated between 7 per cent to 23 per cent and, in one extreme case, to a little over 34 per cent. Only in the case of three issues made by spinning units the cost was below 5 per cent. It appears that these spinning units may have wisely decided not to spend more, knowing fully well that public response to their issues would, in any case, be poor even if they incurred more issue expenses. In the case of the non-convertible debenture issues, the cost was between 2 per cent to 5 per cent and in the case of the convertible bond issues it was between 4 per cent to 8 per cent. It is obvious from the analysis that, while no definite generalisation of the probable cost of the issues can be made either for the small or the large companies and similar companies inter-se, the smaller companies and, particularly, those with lesser known promoters tend to spend more to sell their issues, while the bigger companies with better known promoter groups try to boost up their image and in the process tend to oversell their issues even though they are aware that their issues would get fully subscribed. The analysis further brings out that even among the companies with smaller size, expenses

vary from company to company depending on whether the companies are new or the existing ones.

6.8 It is true that no common pattern of cost according to the size, type of issue, etc. emerges from the said analysis. In fact, this should not be a matter of surprise because a number of factors have a vital bearing, directly or indirectly, on the cost of public issues of capital, such as the size and nature of the issues, the type of the security issued whether equity, preference or debentures, the extent of inflationary impact on the cost of publicity, printing, computer and postal charges, track record of the company, background of the promoters, performance and prospects of the industry to which the company belongs, state of the stock markets and general investment climate at the time of the issue of capital, guidelines and norms fixed by the Stock Exchanges for the companies in respect of the new issues, the desire of the promoters to build up their image and prestige, the extent of salesmanship involved etc. Nevertheless, the general view is that a considerable scope exists for reduction in the cost of public issues of capital.

6.9 For the sake of critical evaluation of the cost of public issues of capital, major components thereof can be grouped as indicated earlier as: (a) mandatory costs like underwriting commission (if the issue is underwritten), brokerage, fees of the managers to the issue (as stipulated by the Controller of Capital Issues), statutory press announcements, listing fees of the Stock Exchanges, payment of stamp duty, etc. and (b) variable costs such as cost of printing, stationery, publicity, mailing expenses and other miscellaneous charges such as legal and auditors' fees, charges for the Registrars to the Issue, etc. Each of the major items of cost is examined separately below :

## SECTION II · MANDATORY COSTS

### (1) Underwriting Commission and Brokerage Charges

6.10 The Committee notes that the underwriting commission and brokerage charges constitute, on an average, about 30 per cent and 50 per cent of the total cost of the issue of shares and debentures to the public, respectively (Table No. 16). It has, therefore, examined this major area of the cost in-depth to find out whether any scope exists to reduce the cost of underwriting of public issues consistent with the need to ensure that the resource mobilisation through the medium of the Stock Exchanges is not, thereby adversely affected.

#### *Underwriting Commission*

6.11 Section 76 of the Companies Act, 1956, permits a company to pay commission to any person in consideration of : (a) his subscribing or agreeing to subscribe, whether absolutely or conditionally, for any shares or debentures of the company; or (b) his procuring, or agreeing to procure subscription, whether absolutely or conditionally, for any shares or debentures of the company, provided the company offers the shares or debentures to the public for subscription.

6.12 The underwriting commission, as is commonly understood, is the amount payable to a person who undertakes the risk of development of a fixed amount of the issued capital offered to the public and underwritten by him if the said capital is not fully subscribed by the public. If the issue is over-subscribed or fully-subscribed, the full underwriting commission is paid to the underwriter on the amount underwritten by him.

6.13 Since April 1982, underwriting commission payable by the companies has been revised upward by the Government at 3 per cent on shares, and at 2.5 per cent in case of both convertible and non-convertible debentures in respect of the amount devolving on underwriters and at 1.5 per cent on the amount subscribed by the public. However, the development banks like Industrial Development Bank of India, Industrial Credit & Investment Corporation of India and Industrial Finance Corporation of India charge half the normal underwriting commission for aggregate underwriting upto Rs. 2.5 crores, Rs. 1.5 crores and Rs. 1 crores, respectively, for projects in A, B and C backward area districts. It is to be noted that such underwriting commission is payable on an uniform basis, irrespective of the size and attractiveness of the issues or whether the companies are new or the existing ones, once the Controller of Capital Issues and/or the financial institutions stipulate the condition that the issues should be underwritten. Moreover, full underwriting commission is paid although the initial amount collected on applications may be only 25-50 per cent and even though sometimes it becomes difficult, later on, for the companies to collect monies payable on allotment and/or for subsequent calls. Sometimes, part of the issue is reserved for preferential allotment amongst business associates, employees, etc. and the unsubscribed portion is added to the public issue. Quite often the right issues of equity, preference shares and debentures which are not subscribed to by the existing shareholders are offered to the public and such issues are also underwritten and underwriting commission is paid thereon.

6.14 At present it is not compulsory for any company under any statute to get its issue underwritten either fully or partly when it makes a public issue of its capital. However, the Controller of Capital Issues, while giving the consent for the issue and the financial institutions, while sanctioning the loans and subscription of capital, stipulate at their discretion, a condition regarding underwriting of capital. Further, under Section 69 of the Companies Act, 1956, a company which has offered its share capital to the public cannot proceed to allot the shares and has to return the monies received from the applicants unless it obtains a minimum level of subscription of capital as stated in the prospectus. Hence, irrespective of the stipulations made by the Controller of Capital Issues and the financial institutions, it is considered to be in the interest of the company to get its shares underwritten, if it does not want to endanger the new project undertaken by it unless it is confident to get adequate public response to its issue. Similarly, for both the convertible and non-convertible bonds/debenture issues also, such underwriting or standby arrangements are invariably made by almost all the companies. The extent to which a company arranges underwriting of

the public issue, however, depends upon the stipulations of the Controller of Capital issues and financial institutions, as indicated above, the state of the capital market, the size of the issue, credit rating of the promoters in the market, the expected response from the investors, etc.

6.15 Such underwriting arrangements are entered into by the companies with a number of agencies such as All India financial institutions viz., Industrial Development Bank of India, Industrial Finance Corporation of India, Industrial Credit & Investment Corporation of India, Life Insurance Corporation and Unit Trust of India, State level institutions like State Industrial and Development Corporations, State Financial Corporations, Banks, Companies in the private sector such as the Investment Corporation of India Limited and the Industrial Investment Trust Limited, Brokers, etc.

6.16 A major portion of the underwriting of the public issue is, however, done by All India financial institutions in addition to granting of loans and/or subscribing to debentures. This can be seen from Table No. 17. However, these institutions themselves do not canvass the issues among the investing public and development banks, often, offer sub-underwriting of the issues to brokers to reduce their underwriting liabilities. The practice is different among the Investment Institutions. The insurance institutions like the Life Insurance Corporation and the General Insurance Corporation and its subsidiaries, decide first to invest in the issue and thereafter underwrite the said issue to the extent of their investment interest. Hence, when the issue of any company opens for public subscription, they put in their application to subscribe to the issue and such subscription, therefore, also forms part of the public subscription. The underwriting done by the Life Insurance Corporation and the General Insurance Corporation and its subsidiaries is, therefore, a means to earn underwriting commission to reduce the book value of the investments. In so far as the Unit Trust of India is concerned, when it decides to underwrite any public issue it is not obliged to put in its application for investment when the issue of a company which it has underwritten open for public subscription. The role of the state level financial institutions in underwriting of public issues of capital is minimal in view of the resource constraint faced by them.

6.17 The commercial banks also act as underwriters to the public issues of shares and debentures and have been providing such support recently on a scale much larger than that in the past. It may, however, be emphasised that even though the banks are permitted to underwrite the issues, they do so mainly to extend their patronage to their valued clients or potential clients. Some of the banks have now established full-fledged merchant banking departments, which provide services to their clients by way of syndication of loans, management of public issues and offer general advice in the matter of project financing. Such banks do underwrite a part of the issues on their own, but most of them, of late, get the issues sub-underwritten by the brokers to reduce their underwriting liabilities and sometimes enter into buy-back arrangements with other institutions or with



promoters themselves. Table No. 18 gives an idea of the amounts of public issues underwritten and subscribed by the banks since 1970-71. The share of the banks in the total underwriting increased sharply from 4.5 per cent in 1970-71 to 18.8 per cent in 1982-83. Amount-wise the banks' underwriting at Rs. 35.25 crores in 1981-82 was the highest so far. During 1970-71 to 1980-81, the amounts underwritten by the banks fluctuated in the range of Rs. 1.40 crores to Rs. 10.52 crores.

6.18 The stock-broker members of the Stock Exchanges take an active part in the underwriting of public issues. Their share in the underwriting of issues has been growing in the last two years. This is revealed from Table No. 19. The amounts underwritten by the brokers ranged between Rs. 4.61 crore to Rs. 22.62 crores during 1970-71 and 1978-79 and between Rs. 10.19 crores and Rs. 118.73 crores during 1979-80 and 1982-83. In terms of the share of underwriting by brokers to total amounts underwritten, the best performance (46.9 per cent) was in 1973-74 while the highest amount underwritten (Rs. 118.73 crores) was in 1981-82. The work done by the Stock-brokers as underwriters is largely confined to canvassing of the issues by way of mailing of application forms to their clients and other investors. Some stock-brokers have, however, created a network of sub-brokers or agents to canvass public issues among the investing public in other urban and semi-urban areas where there are no Stock Exchanges. It may be noted that the underwriting of any public issue done by most of the Stock brokers is mainly of a placement character without their strictly assuming the risks incidental to such underwriting as they do not have adequate financial resources to back up their underwriting commitments. Only in few cases the stock-brokers are required to nurse the development as seen from the above table and even here some of them, as reported, try to wriggle out of their liability on one pretext or the other.

6.19 Tables Nos. 20, 21 & 22 bring out, in a summarised form, the amount offered to the public and the amount underwritten thereto, the amount subscribed by the public and the underwriters as investors and the extent of liability devolving on the underwriters since 1971. It may be noted that, during the last 13 years, the minimum and the maximum underwriting done by the underwriters ranged between 57 per cent in 1981 and 97 per cent in 1976 (Table No. 20) while the minimum and the maximum devolvement on them was between 11 per cent in 1982 and 36 per cent in 1978 (Table No. 22). It is true that this is an aggregate picture of the issues underwritten and it is possible that in respect of some issues (more particularly of preference shares and debentures) the response of the investing public in some of the earlier years might not have been as satisfactory as expected and in some others, the underwriters would have become "undertakers" also. However, the aggregate picture does reveal that during these years the public response was, on the whole, much better generally than during the years 1960 to 1971. From Table No. 23 it may be noted that the public response to the new issues was not less than 50 per cent since 1971 and was, in fact, well above 75 per cent since 1979. If we combine the response of the public with the

response of the underwriters as investors, it will be noticed that except during 1978 when the subscription to the issues by the public and the underwriters as investors was 64 per cent, in no other year since 1971 the combined response has been less than 75 per cent taking all the issues in the aggregate. In fact, the security-wise analysis reveals that the response of the public and the underwriters as investors has been much better in case of the equity issues all these years.

6.20 It is evident from Table No. 12 that in the case of equity issues since 1971-72, the public subscribed to over 60 per cent of the amount of equity capital except in the years 1975-76 (58.4 per cent) and 1977-78 (56.4 per cent). It also shows that the underwriters were not called upon to meet more than 20 per cent of their real underwriting liability as underwriters of equity issues, except during the period namely, 1977-78 (33.8 per cent) and 1982-83 (20.36 per cent). It is true that such an underwriting experience is in relation to both the existing as well as the new companies. At the same time, it may be highlighted that equity issues of the new companies practically dominated the scene every year since 1970-71. For instance, out of the total number of 64 companies which came to the market in 1970-71, were the new companies and in 1982-83 the number of the new companies was much higher at 531 out of 565. It is quite understandable that the public response would be better in the case of equity issues of well-established companies with good track record. However, since in the case of lesser known promoters who float the new companies, the degree of response would vary depending upon the type of industry, the image of the promoters, the extent of marketing efforts etc., the extent of the public response may not have been equally satisfactory. Table Nos. 7 & 8 also reveal that in 1976-77, 38 per cent of the public issues made were undersubscribed when 88 new companies entered the market, whereas in 1977-78 the proportion of the issues undersubscribed went upto 48 per cent when 101 companies entered the market. The percentage of the issues undersubscribed, however, considerably tapered off to 12.7 per cent in 1979-80 (when 119 new companies entered the market), 11.8 per cent in 1980-81 (when 186 new companies entered the market), 8 per cent in 1981-82 (when 305 new companies entered the market) 9.6 per cent in 1982-83 (when as many as 531 companies entered the market) and to 4.9 per cent in 1983-84.

6.21 The picture is somewhat different in the case of the preference share issues, during the period under review, as the amounts of issues were much smaller (maximum being Rs. 7 crores since 1975-76). As mentioned in the earlier chapters, the companies do not normally prefer to raise capital by way of preference shares the servicing cost of the preference capital being prohibitive since the preference dividend has to be paid out of the post-tax profits. The response of the public to the preference capital issues has also been poor, so far, due to unattractive returns, lack of liquidity of such shares, uncertainty of the redemption on the due dates, heavy depreciation suffered by the investors in the past, etc. Hence the underwriters of such issues, namely institutional investors, had to absorb the issues all these years.

6.22 In the case of debentures also, the amounts of issues were less than Rs. 10 crores upto 1979-80, except in the year 1972-73 when it was Rs. 18 crores.

6.23 Interest on debentures is a charge on the revenue and hence the companies do prefer to make such issues. Even from the point of view of the investors, who prefer a steady income with adequate security, debentures are an ideal form of investment. Still, debenture market was practically dead between 1974-75 and 1978-79 because debentures issued in the past had suffered heavy depreciation and such investments were practically illiquid. However, it was mainly the fear of the loss of their capital, more than anything else, which had marred the investors' psychology and had deterred them from investing in debentures.

6.24 The spate of public offers of attractive equity issues of the Foreign Exchange (Regulation) Act companies between 1978 and 1980, the introduction of convertible debenture issues by well-established companies with prospects for substantial capital gains for the equity component of such debentures, the upward revision in the rates of interest on non-convertible debentures to 12 per cent in 1980, 13.5 per cent in 1981 and to 15 per cent in 1982 (with 5 per cent premium on redemption with added attractions of such arrangements as buy-back at par after one year and cumulative and non-cumulative interest payment), the aggressive salesmanship by the companies and the merchant bankers, the helpful policies of the Government, etc., have brought about a welcome change in the investors' psychology. These developments have helped in widening and deepening of investment consciousness, given a much needed fillip to the new issue market and have, in fact, transformed its character and ramifications.

6.25 The new issue market has particularly witnessed since 1980-81 a spate of convertible and non-convertible debenture issues which were few and far between in early years and undreamt of in terms of size. This is evident from the fact that as many as 46 and 34 existing companies tapped the new issue market for their capital requirements and mopped up Rs. 233 crores and Rs. 203 crores in the years 1981-82 and 1982-83, respectively. This is in sharp contrast to a meagre total of Rs. 63 crores raised by the companies by way of debenture issues in the entire decade ending 1979-80.

6.26 As a result, the mobilisation of resources from the new issue market has gone up on an average from about Rs. 58 crores during the decade ended 1979-80 to about Rs. 853 crores during 1983-84 and is expected to touch a new record figure of around Rs. 1500 crores in 1984-85.

6.27 In the light of the experience of the underwriters since 1970-71, a question arises whether all the issues of securities, which are offered to the public, need to be underwritten and whether the companies should, decide on their own, to get their public issues of securities underwritten or not. In the opinion of the Committee, whenever a company makes a public issue of securities at a premium of 25 per cent or more, no underwriting arrangements should be permitted.

Further, in respect of the public issues of securities by the existing companies which have earned net profits in any three years out of the last five years, or where the premium is less than 25 per cent, underwriting arrangements should be optional to the companies concerned. However, in such and other cases, the Controller of Capital Issues/All India financial institutions should use his/their discretion about the extent of underwriting to be done by a company depending upon the size of the issue, nature of the industry, background of the promoters, anticipated response of the investing public, etc.

6.28 There could be many cases where the projects are vetted by the financial institutions and they are agreeable to provide assistance by way of term loans and/or underwriting of the issues. In such cases, it is likely that there may be unfilled gaps of underwriting of the issues for which the promoters tend to seek underwriting facilities from other underwriters. The Committee feels that even in the foregoing cases there may not be any need for underwriting arrangements to the extent of unfilled gaps or even to the extent of underwriting committed to by the financial institutions, if any, provided the financial institutions agree to provide stand-by arrangements to take up the unsubscribed portion of an issue in the event of its under-subscription. For the said purpose, the financial institutions could be requested to put in their applications on the last day of the closure of the issue in case the minimum required public subscription has not been received by then. This would ensure compliance with the minimum subscription requirement under Section 69 of the Companies Act, 1956.

6.29 The existing rates of underwriting commission of equity and preference shares and debentures, as stated earlier, are as under :

| Name of the Security                       | Rate of Underwriting Commission                                                                         |
|--------------------------------------------|---------------------------------------------------------------------------------------------------------|
| Equity and Preference Shares               | 2%                                                                                                      |
| Convertible and Non-Convertible Debentures | (a) 2.5% on the amounts devolving on underwriters.<br>(b) 1.5% on the amounts subscribed by the public. |

6.30 As stated earlier, our analysis of the various components of the cost of equity and debenture issues of the companies reveals that the cost of underwriting commission together with the brokerage constitutes nearly 30 per cent of the cost of equity issues and over 50 per cent of the cost of debenture issues. There is, therefore, no option other than reducing the cost of underwriting commission if the cost of public issues is to be reduced. This is also justified because the present conditions of the capital market have substantially improved and it is no longer necessary to pay higher rates of underwriting commission. As noted earlier, a major portion of the issues is underwritten by the financial institutions and they would not mind some reduction in the underwriting commission if it is so warranted in the public interest. Besides, payment of high underwriting commission together with high brokerage has, in fact, led to trafficking in new issues



and unhealthy practices of "kick-backs" and other back-doors methods and buy-back arrangements on the part of some stockbroker underwriters and others connected with the issues. This defeats the very objective of the Government's policies in a number of ways. The Committee feels that some reduction in the cost of underwriting commission would not dampen the upward trend in mobilisation of resources in the capital markets since the buoyancy witnessed in the market is not so much due to the recent increase in the underwriting commission as to the higher effective yields, improved investment climate, etc.

6.31 After considerable discussion on the subject, the Committee recommends that :

- (i) underwriting commission on equity shares should be reduced to 2.5 per cent as against existing rate of 3 per cent. Further, there should not be any distinction between the amounts devolving on the underwriters and the amounts subscribed by the public.
- (ii) underwriting commission payable to an individual underwriter for preference shares, convertible and non-convertible debentures should be at the following rates :

|                                          | On amounts<br>devolving<br>on the<br>underwriter | On amounts<br>subscribed<br>by the<br>public |
|------------------------------------------|--------------------------------------------------|----------------------------------------------|
| (a) For amounts upto Rs. 5 Lakhs         | 2.5%                                             | 1.5%                                         |
| (b) For amounts in excess of Rs. 5 Lakhs | 2%                                               | 1%                                           |

- (iii) It may also be clarified by the Controller of Capital Issues by way of notification/circular that the rates of underwriting commission fixed by him are the ceiling rates within which any company is free to negotiate the same with the underwriters.
- (iv) Underwriting commission should not be payable on the amounts taken up by the promoters' group and the amounts taken-up by the employees, directors, their friends and business associates and depositors and debenture holders of the companies in case of preferential allotment.

6.32 Analysis of Table No. 24A & 24B reveals that over a period of 8 years from 1975-76 to 1982-83 majority of the issues which were offered to the public were of less than Rs. 1 crore. Over the said period, the percentage of the issues upto Rs. 1 crore ranged from a minimum of 74.6 per cent in 1981-82 to a maximum of 90.6 per cent in 1979-80. It is also revealed that the public response to the issues of Rs. 1 crore and less is fairly satisfactory. However, the underwriting cost, which is in the nature of fixed costs and which forms a sizeable proportion of the cost of the public issues made by the smaller companies, can be avoided, if financial institutions can consider taking up issues upto Rs. 1 crore on a consortium basis so that the new companies of the smaller size may not

have to go to the market for their issues, if they choose not to do so. The institutions may also, at their discretion, consider taking up equity issues above Rs. 1 crore. In our country, where preference for financial assets and consciousness about the benefits of investments, particularly in the securities quoted on the Stock Exchanges are yet to be created and where investment education is yet to percolate among investors in the semi-urban and rural areas, it is desirable that the financial institutions adopt such a course of action. They may nurse such issues till the companies concerned reach the stage of profitability and thereafter offer the same for sale to the public without destabilising the existing managements. The initial taking-up of the entire portion of the public offer by the financial institutions and its subsequent offloading to the public is in effect mere postponement of the issue. Therefore, the Committee is of the view that the benefit of Section 80CC of the Income Tax Act, 1961 as available to the public at present in respect of equity issues of the new companies should continue to be extended to the investing public when such issues are offloaded by the financial institutions.

6.33 The questions will, however, remain about the timing of the public offers of sale of such shares by the financial institutions later on when the concerned companies reach the stage of profitability, the prices at which such issues will be marketed, the formalities they will have to comply with at the relevant time, etc. At present, a number of formalities are required to be complied with by anyone making the offers of sale of shares to the public. In the opinion of the Committee, the financial institutions should be exempted from complying with such formalities by inserting necessary proviso in Section 64 of the Companies Act, 1956 to the effect that in case such offers of sale of shares to the public are made by the financial institutions, the provisions of that Section will not apply. Similarly, necessary changes can also be incorporated in the Listing Guidelines of the Stock Exchanges. It is, therefore, recommended that suitable amendments be incorporated in the provisions of Section 64 of the Companies Act, 1956 and the Listing Guidelines on the subject be revised appropriately by the Controller of Capital Issues in consultation with the financial institutions.

6.34 Albeit, a flexible approach has to be adopted in such matters and the Controller of Capital Issues and the financial institutions should be free to use their discretion and decided on the course of action or method which they wish to adopt to achieve the objective in view. A better course may, however, be to promote a separate institution by the consortium of financial institutions, banks, State Industrial Development Corporations, etc. to take up the new issues of capital made by the non-Monopolies Restrictive & Trade Practices and the non-Foreign exchange (Regulation) Act companies.

6.35 The Committee has, in the chapter on 'Membership' expressed the view that it would be necessary to impose a ceiling on the maximum amount of underwriting that can be done by each underwriter broker and on the total amount of underwriting, at any point

of time, which can be done by an individual underwriter broker in a year. However, the basis of the imposition of such ceilings is closely linked up with the question of a minimum financial stake of the stockbroker in his business. It is also necessary to ensure that there is a wider dispersal of underwriting of the public issues among the various stockbrokers in order to make underwriting as broad-based as possible.

*Brokerage charges in respect of securities underwritten and not underwritten*

6.36 The brokerage paid to the stockbrokers was revised in 1982 as under :

*Brokerage in respect of securities underwritten*

| Shares | Convertible Debentures | Non-Convertible Debentures |
|--------|------------------------|----------------------------|
| 1.25%  | 1.25%                  | 1.5%                       |

*Brokerage in respect of securities not underwritten*

| Shares | Convertible Debentures | Non-Convertible Debentures |
|--------|------------------------|----------------------------|
| 1.5%   | 1.5%                   | 2%                         |

6.37 Some pertinent points in respect of the brokerage charges that deserve to be noted are as under :

- the brokerage charges are payable only to the members of the Stock Exchanges and to the bankers to the issue and they are payable on the amount (face value) allotted and not on the amount paid-up ;
- the brokerage charges are not payable on the direct applications received from the employees/staff/directors/friends and associates as well as the public sector undertakings ;
- the brokerage charges are not payable to the managers to the issue. However, the brokers' promoted merchant bankers enjoy double benefits of the brokerage charges through their brokerage firms over and above the usual fees of managers/consultants to the issue. The merchant banking divisions of the commercial banks similarly enjoy both the benefits. However, the merchant banking divisions of the financial institutions are not permitted to accept brokerage charges.

6.38 The Committee is of the opinion that there is a scope for rationalisation and streamlining of the payment of brokerage charges in the light of the recent developments.

*(i) Shares*

The present rates of brokerage are 1.25 per cent in respect of shares underwritten and 1.5 per cent in respect of shares not underwritten. The Committee is of the view that there is yet a long way to go to spread the cult of equity in the country and considerable pre and post sales' services are expected to be rendered by the stockbrokers. In view of the above,

the payment of brokerage be rationalised as to make it uniformly payable at the rate of 1.5 per cent whether the equity issue is underwritten or not.

*(ii) Convertible Debentures*

The present rates of brokerage are 1.25 per cent for convertible debentures underwritten and 1.5 per cent for convertible debentures not underwritten. The instrument of convertible debentures has become very popular in view of its linkage with the equity component of the issue and chances of appreciation therein. The convertible debentures can now be sold on tap without any sales efforts involved on the part of the stockbrokers in view of the popularity of such issues as stated. The analysis of 36 issues of convertible bonds since 1981 reveals that 18 issues were over-subscribed upto 5 times, 14 by 5-10 times and 4 by more than 10 times. There is, therefore, some scope for reducing the brokerage in respect of convertible debentures. However, at this juncture when the convertible debentures are beginning to gain wider acceptability, the brokerage on convertible debentures should not be reduced in the opinion of the Committee, but be paid on the basis of 1.5 per cent whether the issue is underwritten or not. The question of reduction of brokerage in case of convertible debentures may be considered at an appropriate time in future.

*(iii) Non-Convertible Debentures*

The present rates of brokerage are 1.5 per cent in case of non-convertible debentures underwritten and 2 per cent in case of non-convertible debentures not underwritten. The substantial increase in the rates of brokerage on non-convertible debentures was a part of the package of measures to revive market for non-convertible debentures which was in doldrums till then and to enable the stockbrokers to bear the increased costs of mailing and out-of-pocket expenses due to inflation and increase in the number of clients whom they service. The market for non-convertible debentures is now fairly buoyant and even issues of B grade companies are mostly over-subscribed or subscribed fully. It needs to be emphasised that the upsurge in the debenture market is mainly on account of the attractive features of non-convertible debenture issues, such as 15 per cent interest with 5 per cent premium at the end of the redemption period, the buy-back arrangements in respect of holding upto the face value of Rs. 40,000 after one year from the date of the issue, facilities of cumulative and non-cumulative payments of interest, the active back-up support of the investment institutions and the tax concessions given by the Government to revitalise debenture market. Nevertheless, intensive promotional efforts will have to be made and sustained sales drive will have to be undertaken to evoke a better response from the investing public. The Committee, therefore, recommends that the brokerage in respect of the non-convertible debentures be uniformly fixed at 1.5 per cent whether the issue is underwritten or not.

6.39 The stockbrokers are paid additional brokerage charges in the form of mailing expenses and also out-of-pocket expenses sometimes for canvassing the public

issues. It is generally observed that apart from mailing the application forms and sometimes brochures (not prospectuses which are really expected to be posted) to some of the same investors to whom other stockbrokers also mail literature, most of the stockbrokers are not putting in any worthwhile efforts to canvass or popularise the issues. Complaints are also made that most of the stockbrokers do not render any worthwhile after-sale service and express their helplessness in a majority of cases whenever the investors face problems with the companies making public issues. The rates of brokerage were revised upward, as stated above, inter-alia, to compensate the stockbrokers for increase in mailing and out-of-pocket expenses involved in canvassing the issue. However, the stockbrokers claim such expenses mainly on an ad hoc basis from the companies whether they incur such expenses to the extent of their claims or not. Most of the stockbrokers also do not maintain proper books of accounts for the purpose and there is no satisfactory method, at present, to ascertain whether such expenditure has been actually incurred by the stockbrokers. In the considered view of the Committee there is no justification for the stockbrokers to claim mailing and out-of-pocket expenses from the companies, which in fact they are expected to bear out of the brokerage amount received by them and the fact that brokerage rates are recommended to be uniformly fixed at 1.5 per cent in respect of the public issues whether they are underwritten or not. In view of this, the Committee recommends that it may be clarified by way of a circular that the rate of brokerage would include all mailing and out-of-pocket expenses and a clause to this effect should also be included in the agreement to be entered into between the companies and those canvassing the sale of the issues.

6.40 The Controller of Capital Issues has been, of late, permitting companies to retain part of over-subscribed amounts of capital. Further, companies have also been permitted to place part of the sanctioned capital issues by way of private placement. Private placement of capital has its own advantages in raising resources from the public. However, as the work involved in raising capital by private placement is less compared to the work involved in public issues, the Committee is of the view that the brokerage paid on private placement of capital, by whatever name it is called, should be lower than that paid on public issues. Accordingly, the Committee recommends that companies should not pay more than 0.5 per cent brokerage on private placement of capital in case of listed companies provided the applications bear the stockbrokers' stamp. However, no such brokerage should be paid by the companies in respect of the promoters' quota and the amounts taken up by directors, their friends, employees, business associates, companies under the same management, private trusts, depositors and debentureholders of the companies in case of preferential allotment and in respect of right issues taken up or renounced by the existing shareholders or the debentureholders unless, they are offered to the public and subscribed by the public. No brokerage should, however, be paid on the amounts underwritten by the financial institutions and banks. No brokerage should also be paid on the amounts

taken up or placed with the financial institutions and banks out of the right issues offered to the public.

6.41 It should also be made clear, by way of circular, that the cost of public issues includes the cost of private placement of issues if such a placement is out of the public issue sanctioned by the Controller of Capital Issues.

6.42 Apart from the stockbrokers, the brokerage is also paid to the banks @ 1.5 per cent in respect of applications for securities procured by them and bearing their stamps. The same brokerage as paid hitherto should be continued to be paid. Similarly, if any other financial institutions also procure such applications bearing their stamps there should not be any objection to the brokerage being paid to them if their Charter permits and if they so desire. However the brokerage should not be paid in such cases when the applications are made by the banks and the financial institutions against their own underwriting commitments or on the amounts devolving on them as underwriters consequent to the under-subscription of the issues.

6.43 In the chapter on 'Membership' we have already stressed the need for having a class of licensed securities agents in places where there are no Stock Exchanges and where the secondary market is not well developed. The Committee is of the view that they should be paid brokerage of 1.5 per cent as in the case of the members of the Stock Exchanges and the prospectuses issued by the companies should mention that brokerage will be paid to them @ 1.5 per cent.

## 2. Fees of the Managers to the Issue

6.44 During the last few years, a number of the financial and investment consultancy firms and merchant banking divisions of the commercial banks and the Industrial Credit and Investment Corporation of India have become active in helping their clients to raise finance for their projects and particularly in the management of the public issues of industrial securities. Such managers to the issue have also contributed, through their specialised pre-issue and post-issue services and marketing strategies, in ensuring the success of the new public issues and in reviving the interest of the investors in the new issue market. Nevertheless, there is a view that a number of agencies are appointed as adviser to the issue, manager or joint manager to the issue, consultant to the issue, etc. and that the manager's fees are also rather high. The Committee feels, in this connection, that it may not be possible for any single agency to handle the larger issues of capital which are now becoming the order of the day and it may be necessary for the companies to appoint more than one agencies for the purpose. The Company should, therefore, be free to appoint one or more agencies to manage their issues. However, in the opinion of the Committee there is some justification for rationalising the structure of their fees. Accordingly, the Committee recommends

that the managers' fees for all the agencies put together should not exceed, in the aggregate, percentage fixed as under :

- (a) for issues upto Rs. 5 crores — 0.5 per cent
- (b) for excess over Rs. 5 crores — 0.25 per cent

6.45 In calculating such fees the amounts agreed to be taken up by the financial institutions viz., the development/investment institutions and the amount devolving on them as investors/underwriters should be excluded. The Committee also recommends that managers' fees should not be allowed in respect of amounts taken up by the promoters, employees, directors and their friends, business associates, companies in the same management private trusts and debenture-holders of the companies in case of preferential allotment to them. Such managers' fees should also not be excluded. The Committee also recommends that Similarly, no managers' fees should be paid by the companies in respect of the amounts underwritten and/or taken up by or placed with the financial institutions and banks out of the right issues offered to the public.

6.46 The listing requirements of the Stock Exchanges make it incumbent to appoint at least one member of each of the recognised Stock Exchanges as official brokers to the issue. The Committee feels that in the changed circumstances, where a number of professional agencies have entered the field, it is not necessary to compel any company which offers its securities to the public to appoint official brokers to the issue. It has been brought to our notice that most of the official brokers do not even render such simple services as submitting of listing applications to Stock Exchanges. While the practice of appointing official brokers may have historical relevance, this practice has now outlived its utility and is no longer required. If a particular member broker or a firm of member broker is competent enough to compete with other specialised agencies in the field and is chosen by any company to render such services nobody would prevent him or it from doing so with the prior approval of the Stock Exchange concerned. The Committee is, therefore, of the view that the provision regarding compulsory appointment of official brokers to the issue from each of the recognised Stock Exchanges should be deleted.

### 3. Statutory Press Announcements for Public Issues

6.47 It has been noticed that most of the companies issue statutory press announcements relating to public issues of securities by taking space in the newspaper admeasuring half a page or less. At the same time some of the companies take more space for advertisement that what is necessary for the purpose of such announcements. The Committee feels that such over-spending should be avoided and the size of the statutory press announcements released in the newspaper should not exceed half a page.

### 4. Listing Fees

6.48 The Committee does not see much scope in reducing the expenses related to the listing fees. The

Committee has, in fact, suggested an increase in the listing fees of the various Stock Exchanges.

### 5. Stamp Duty

6.49 The stamp duty which a company is required to pay in respect of the issue of capital will be deemed to be mandatory cost.

## SECTION III : VARIABLE COSTS

### 1. Printing and Distribution Costs

6.49 Due to general inflationary pressures in the economy during the last 12 years, the cost of printing of a large number of application forms, brochures, prospectuses, envelopes, etc., which are in demand in respect of the public issues of capital, has risen sharply. For example, we are informed that a twenty page prospectus now roughly costs 80-90 paise per copy while application forms cost about 8-10 paise per copy. It is also a widespread practice of the companies to print informative brochures giving the salient features of their issues for attracting investors' interest. It is estimated that a brochure costs on an average 20-30 paise per copy. In addition to such printing expenses there are also costs relating to distribution of prospectuses, brochures and the application forms to different Stock Exchanges, underwriters, managers to the issue, bankers, etc.

6.50 Any investor applying for shares or debentures offered to the public by a company has necessarily to fill in an application form issued by the company. Section 56 of the Companies Act, 1956 stipulates, inter-alia, that no company shall issue any application form for shares/debentures unless the form is accompanied by a prospectus, which complies with the requirements of the said Section, subject to certain exceptions. The Securities Contracts (Regulation) Rules, 1957 framed under the provisions of the Securities Contracts (Regulation) Act, 1956 and the Stock Exchanges by-laws and regulations also prescribe the requirements which a company must comply with if it wants to get its securities listed on any of the recognised Stock Exchanges. One of the listing requirements of the Stock Exchanges is that a company should supply as many copies of prospectuses and application forms as may be reasonably required by the members of each of the recognised Stock Exchanges and that the companies should ascertain from each recognised Stock Exchange, requirements of its members in this regard. However, the stockbrokers have to pay nominal charges @ 5 paise and @ 50 paise for application forms and prospectuses respectively over and above the free supply limits of 200 application forms and 100 copies of prospectuses per member. The companies are also expected to ensure that the prospectuses and the application forms reach each Stock Exchange at least two weeks before a public announcement of the issue in the newspaper and at least three weeks before the opening of the subscription list.

6.51 The Committee has received numerous representations from practically all the individuals and organisations who have made their submissions to the

Committee, to the effect that the legal requirement of every application form for shares or debentures issued by a company being accompanied by a prospectus should be done away with. It is argued that while the prospectus as is prescribed at present, may be necessary to ensure fullest disclosure of the company concerned in order to protect the investing public from frauds, it is too copious and too technical a document for common investors. Practical utility of the prospectus in its present format, is considerably reduced as it does not contain some details which are really required by the investors to evaluate any public issue of capital from the investment angle. It is, therefore, suggested that it should be considered due compliance with the legal provisions if any application form distributed by a company in respect of its public issue of capital is accompanied by a perforated annexure (in a format duly approved by the Controller of Capital Issues|All India financial institutions|Stock Exchanges) containing the main highlights of the project and the issue at a glance for enabling the investor to judge the merits of each issue by himself. The Committee unanimously endorses this view. However, such a step would necessitate suitable amendments to Section 56 of the Companies Act, 1956 and the Schedules thereto for dispensing with the present requirement that every application form sent to the prospective investor be accompanied by a prospectus. The Committee, therefore, recommends that Section 56 of the Companies Act, 1956 be amended as\* under :

“Provided, however, that it may be considered to be due compliance with the provisions of this Section, if an application form giving the essential highlights of the issue, approved by the Controller of Capital Issues|All India financial institutions|Stock Exchanges is sent in place and stead of a prospectus and provided further that a copy of such prospectus, as required to be issued by a company, is made available to any investor by any of the offices of the company concerned, Stock Exchanges, Under-writers, Managers to the issue, the bankers to the issue, etc.”

6.52 Further, in the opinion of the Committee the format, size and content of the prospectus itself should be simplified and abridged to make it more compact and easily readable and to avoid unnecessary details that are available either in the Memorandum or Articles of Association of the companies or in the application forms themselves, etc. This is all the more necessary now as the all India or State level financial and investment institutions screen the projects promoted by the new and the existing entrepreneurs thoroughly before sanctioning financial assistance or approving prospectus as underwriters. This fact could be brought to the attention of the prospective investors by inserting a suitable statement in the prospectuses and the application forms to the effect that the companies have complied with all the statutory requirements. The Committee recommends that the Department of Company Affairs be requested to examine the issues involved and do the needful at the earliest

by amending Section 56 of the Companies Act, 1956 and the Schedules attached thereto.

6.53 It is often observed that some stockbrokers mail such forms and brochures to a large number of persons, whether they are clients or not, by obtaining lists of shareholders from some of the big companies. This results in a number of application forms and brochures, if not prospectuses, being mailed to the same investors over and over again by different brokers. Such an indiscriminate posting of application forms, brochures and sometimes prospectuses quite often to the same investors put an avoidable heavy burden on an already overburdened postal system. It also leads to national wastage of paper and newsprint, which is in short supply in the country and increases printing, mailing and other expenses connected therewith substantially. In fact, most of the application forms are wasted. This is evident from the information collected from a few companies and reproduced in Table No. 25 regarding the number of application forms printed by them and actual number of application forms received by them from the investors.

6.54 The Committee feels that for curbing the indiscriminate demand for application forms, prospectuses and brochures and to avoid their wastage, norms for their allocation to the stockbrokers, underwriters and others need to be rationally determined. At present, the Stock Exchanges insist on a minimum free supply of 200 application forms and 100 copies of prospectuses to each stockbroker irrespective of the size or nature of the issue and the genuine need for them. If any stockbroker wants additional supply over this free minimum, he is required to pay charges @ 5 paise per application form and 50 paise per prospectus which were 2 paise per application form and 15 paise per copy of prospectus till August, 1984. Such charges are expected to be collected by the Stock Exchanges from the stockbrokers and passed on to the companies concerned. The Committee is of the considered view that the Stock Exchanges should vet, in the first place, the demand for application forms, prospectuses, etc. from the member-brokers in the light of the size and nature of the issue. Moreover, in view of the steep increase in the cost of printing stationery and mailing in the recent past, the free quota of application forms and prospectuses should be reduced and the charges for excess supply thereto should be as under :

(i) Active stockbrokers concerned with the public issues should be given, if demanded, free supply of application forms and prospectuses as under :

| Public Issue         | Application Forms | Prospectuses |
|----------------------|-------------------|--------------|
| (a) Upto Rs. 1 crore | 100               | 100          |
| (b) Over Rs. 1 crore | 200               | 200          |

(ii) Underwriters should be given free supply of 1000 application forms and prospectuses each, when demanded, for every Rs. 1 lakh of capital underwritten.

(iii) Managers to the issue should be given free supply of 500 application forms and prospectuses each.

(iv) The Stock Exchanges should be given 500 application forms and prospectuses.

6.55 The additional supply of application forms and prospectuses over and above the stipulated limits should be made by the companies concerned to the member brokers, underwriters, managers to the issue, etc. only on payment of actual cost not exceeding 25 paise per application form and Re. 1 per copy of the prospectus and the company should keep a proper account thereto.

6.56 The Stock Exchanges/underwriters/managers to the issue/stockbrokers, etc. must place firm orders for the supply of application forms and prospectuses with the companies sufficiently in advance of the opening of their public issues.

6.57 The Committee recommends that after Section 56 of the Companies Act, 1956 is amended, as proposed above, which would enable the company to issue application forms accompanied by a perforated annexure and not necessitating that a detailed prospectus be accompanied alongwith the application form, the free quota of application forms and prospectuses to be supplied by the companies making the public issues should be as under :

| Category                           | Size of the Public Issue | Quantity          |                       |
|------------------------------------|--------------------------|-------------------|-----------------------|
|                                    |                          | Application Forms | Detailed Prospectuses |
| (i) Members of the Stock Exchanges | (a) Upto Rs. 1 crore     | 100               | 10                    |
|                                    | (b) Above Rs. 1 crore    | 200               | 20                    |
| (ii) Underwriters                  | Any size                 | 1000**            | 50**                  |
| (iii) Managers to the Issue        | Any size                 | 500               | 50                    |
| (iv) Stock Exchanges               |                          | 500               | 50                    |

\*\*For every Rs. 1 lakh of capital underwritten, if demanded.

## 2. Advertisement and Publicity Expenses

6.58 It is one of the legal requirements that the company making a public issue of capital has to announce it in a suitable format in one national English daily and one local language daily. Some companies also issue advertisements about the opening and closing of the issue, basis of allotment in case of over-subscription, etc. It is a fact that the cost of advertisement has gone up considerably in the past due to steep increase in the cost of printing, newsprint, etc. As a result, the normal rates of advertisement are stated to be in the region of Rs. 50,000 and Rs. 25,000 for a half page advertisement and Rs. 25,000 and Rs. 12,500 for a quarter page advertisement in an English and vernacular daily, respectively. On this basis, the cost of even a few insertions in a few

papers by a company regarding the issue of capital can alone amount to over Rs. 2 lakhs. While, such costs may be considered unavoidable, some of the companies, particularly the existing companies or the new companies promoted by the existing entrepreneurs, tend to indulge in indiscriminate advertisement campaign to such an extent that expenses connected with such advertisements and publicity are exorbitant. The obvious intention of such companies appears to be to exploit the opportunities of public issues to promote their company's products/services or to boost up the company's or the promoter's image. Expenses incurred on such advertisements are, therefore, out of proportion in fact and even unrelated to the publicity of their issues. With the same end in view perhaps, some of the companies also organise audio-visual shows. It is true that a person who intends to invest in the shares or debentures of a company should know about the company, its products, the background of the promoters, etc. but such details are available in a more compact and precise manner in the brochure or in the prospectus of the company. Hence, such repeated advertisements in newspapers are not called for. In case of some companies, over-selling of their issues through such advertisement campaigns, though not at all necessary, has become a routine matter. It is suspected that such a resort to indiscriminate publicity is partly encouraged by the fact that the companies enjoy tax exemption for share and debenture issue expenses. In this context, the question may be examined whether, through the listing requirements, some norms relating to the number of advertisements given for the benefit of investors, the number and the type of newspapers in which such advertisements should be released, the size of the advertisement, etc. can be laid down on the lines of the provisions relating to the prospectus of a company.

6.59 Another area where some discipline is necessary is in respect of expenses incurred on account of the brokers' and investors' conferences in posh hotels, visit to foreign countries to mobilise non-resident savings in new issues, etc. It is admitted that more publicity has to be given to the new issues particularly to those made by the lesser known promoters to evoke maximum possible response from the investors and some extra expenditure over and above that required for the statutory advertisements may be considered inevitable. However, it is the considered view of the Committee that such expenses would be better justified if they are incurred on organising conferences and meetings of prospective investors in semi-urban and rural areas which may not only lead to the desired level of subscription to the issues but may also be more productive in terms of promoting investment consciousness in such areas ensuring, at the same time, wider geographical coverage for the issues.

6.60 The expenses connected with canvassing of the public issues among the non-resident Indians abroad are now a new factor in the overall cost of the public issue. There is a general feeling that such expenses in the case of some of the issues are rather high and to a large extent, unrelated to the amounts subscribed by the non-residents.



### 3. Expenses of Registrar to the Issue

6.61 The Registrars to the issue handle the post-issue work such as, coordination with the bankers to the issue for accounting of the receipt of applications, and amounts, opening of the bank account for the deposit of collection monies, arranging for processing and tabulation of data, furnishing of required information regarding receipt of applications and amounts collected centrewise and statewide, completion of formalities for allotment of issues, printing and despatch of refund orders, allotment letters, share certificates and maintaining of registers connected therewith, etc. The expenses of the Registrars to the issue tend to vary according to the size of the issue and the extent of subscription to the issue. Such expenses are more or less proportionate to the number of applications handled by them. It is reported that the cost of processing a successful application sometimes goes upto Rs. 10 or even Rs. 13 and Rs. 2 to Rs. 3 for an unsuccessful application. Since post-issue expenses are directly related to the amount of subscription of the issues, the expenses connected with the processing of applications, reconciliation of accounts, issue of refund orders, etc., increase in relation to the extent of over-subscription. The companies collect large amount of funds when the issues are over-subscribed and such funds are normally placed with the banks on short-term deposit. The companies are not allowed to use the same till the allotment of the issue is made. The interest income on such deposits enables the companies to offset, to some extent, their post-issue expenses. Expenses of the Registrars to the Issues account for as much as 3 to 4 per cent of the issue amount in case of a majority of public issues. The Committee is of the opinion that there is a considerable scope for reduction in such expenses and suggests adoption of the following steps :

- (i) Due to the revival of the interest of the investors in the new issue market and the consequent increase in the number of applications made for each issue, the commercial banks connected with the issue come under tremendous pressure of work involved in collection of applications and the moneys from different branches, crediting the same to the Company's account, reconciliation of accounts, advising the companies about the same, etc., Consequently, there are long delays all along the line, leading to further delays in data processing and allotment of refund of excess monies. The companies and bankers to the issue can and should, therefore, ensure that there is proper planning, identification of collection branches well in advance, close monitoring and follow-up with branches and agencies involved, on a day-to-day basis and better coordination between them and the Registrars to the issue. This would help in reducing drastically delays and, incidentally, reduce the costs involved.
- (ii) Considerable economy in time and money can also be effected if the number of centres

at which the new applications are accepted are reduced. The Committee recommends that :

- (a) in respect of the public issue of securities not exceeding Rs. 5 crores, the centres for acceptance should be all the recognised Stock Exchanges and the prescribed centres in the State where the Regional Stock Exchange is situated and the centres in the State where the nearest major Stock Exchange is situated.
- (b) in respect of the public issue of securities exceeding Rs. 5 crores, the centres for acceptance of applications should be all the recognised Stock Exchange centres and all the centres prescribed by the Government.
- (iii) The existing scheme of allotment of shares, debentures is framed with a view to promoting the interests of the genuine small investors and to ensure widest possible dispersal of the holdings. For instance, in regard to shares, the allotment is predominantly in favour of the applications in lower size ranging from 50 to 100 shares of the face value of Rs. 10. With this end in view and to avoid artificial oversubscription and concentration of grouped applications, the Stock Exchanges are also required to ensure that they weed out multiple applications and use six digit identification numbers. This system of allotment itself, in the opinion of the Committee, leads to a company ending up with an unduly large number of shareholders with the consequent initial as well as continuing expenses in servicing these shareholders. The Committee notes that the evil of multiple applications to take advantage of the present system of allotment is still very much in vogue and unnecessarily leads to considerably large amount of administrative expenses connected with processing of applications, refund of application moneys in case of practically most of the issues. The present practice of submitting minimum applications for securities of the face value of Rs. 500 and corresponding minimum allotment of securities of the same face value was fixed quite some time back and needs to be revised in the context of the rise in the standard of living of the people and the decline in value of money due to inflation. Fixation of such lower amount for application and allotment of securities is one of the reasons, apart from the present scheme of allotment, for a large number of small applications being submitted to the companies.

6.62 The present system of allotment does not necessarily ensure that the successful allottees in the case of an issue which gets over-subscribed, would be small investors and even otherwise, in case of

over-subscription to the issues the allotment of shares is in the ratio of 1:15, 1 : 20 etc., in a majority of cases. A study of eleven such oversubscribed issues, in this connection, proves the point (Table No. 26).

6.63 The Committee is, therefore, of the view that applications for securities be invited from the public for a minimum amount of the face value of securities of Rs. 1000 (100 shares of Rs. 10 each or 10 shares|debentures of Rs. 100 each) with the minimum allotment of 100 shares of Rs. 10 or 10 shares|debentures of Rs. 100.

6.64 At present, moneys payable on securities are allowed to be collected at different periods by way of application money, allotment money, calls, etc. This leads to a heavy load of work and huge cost to the company in the issue of frequent call notices, arrangement for collection of call monies by the banks and accounting for the same, receipt of the share certificates from the shareholders for endorsement and returning of the same after the endorsement to the shareholders normally by registered post, correspondence with the shareholders, forfeiture proceedings against those defaulting in payment of call, etc. The Committee is of the opinion that considerable time, efforts and cost involved in the system can be avoided by permitting the companies to adjust excess application money at the time of allotment and if no such excess application money is available, call money notices for the balance amount be allowed to be issued at the time of allotment. Companies should also be permitted to invite application money @ 50 per cent or 100 per cent of the issue price at their discretion.

6.65 At present, under the Securities Contracts (Regulations) Rule 19 (2)(b), any public issue has to be kept open for a minimum period of 3 days and this leads to avoidable heavy oversubscription in most issues, adding thereby to the post-issue expenses. The Committee feels that to prevent over-subscription to issues and to reduce the resultant work load, the subscription list should preferably be allowed to be closed at the end of the first day of the opening of the issue in case the same is over-subscribed by that day. However, to begin with the Committee recommends that the minimum period to keep the subscription list open be reduced from the present level of 3 days to 2 days.

6.66 The Committee notes that a substantial part of the post-issue expenses is incurred on account of registration charges. To avoid this, it would be better, in its opinion, if all the companies can adopt the method of despatch of instruments|documents by means of "recorded delivery". Such a measure may, in some cases, lead to delays and cause hardships if the instruments|documents get lost in transit. In this respect the Committee feels that the companies should examine whether their procedure for the issue of duplicate share|debenture certificates and other instruments|documents, could be simplified to help their shareholders|debentureholders. The companies should also take necessary insurance covers for the purpose.

6.67 The Committee endorses the view that a copy of the basis of the allotment should not be required to be sent to all applicants as it leads to unnecessary costs of postage, stationery, printing, etc. without serving any worthwhile purpose commensurate with the expenditure involved. It is, therefore, suggested that it should suffice the purpose if the companies coming out with public issues publish the same in a widely circulated newspaper.

6.68 The Committee also feels that in view of the tremendous volume of work connected with the processing of application anticipated in the next decade, the Government should examine, as early as possible, the feasibility of establishing a Centralised Servicing Centre|Issue House by the All India|State level financial and investment institutions in collaboration with commercial banks and|or Stock Exchanges with branches at the important centres in the country which can act as a Registrar to the Issues, share transfer agents and trustees for the securities, provide effective competition to the limited number of agencies acting as Registrars to the Issues at present and set norms for providing better and efficient services at a reasonable cost.

6.69 With the growing volume of activity in the new issue market, the banking and the postal systems which are already under tremendous pressures on account of a substantial growth in the volume of their own business and multifarious activities they are expected to undertake, have been subjected to extra stresses and strains. With the heavy influx of applications witnessed these days in the case of a majority of the public issues of the companies handled by the bankers to the issue, the bankers are faced with the onerous task of realisation of share application moneys by presenting the cheques|drafts annexed to the applications for encashment with other banks, which, in turn, leads to additional work load on the drawee bankers too. At times, this process of clearance of cheques|drafts takes three to four weeks with the result that requisite statements are received with considerable delay by the Company|Registrar to the Issue leading to further delays in processing of applications. As a sequel thereto, the companies find it extremely difficult to despatch allotment advices|refund orders to the investors within the prescribed period of 60 days.

6.70 Besides, delayed receipt of refund orders|allotment advices, loss of any instrument in transit causes a lot of inconvenience to the investors as observed from the frequent press reports and the specifically allocated large columns for redressal of investors' grievances by the major financial dailies. It is, therefore, imperative that the entire procedure connected with the acceptance of applications, collection of moneys, etc. and relevant aspects connected therewith be reviewed for taking all possible corrective measures so as to obviate difficulties faced by all concerned parties otherwise, when the volume of work connected with mobilisation of resources reaches a level of Rs. 5,000 crores to Rs. 10,000 crores per year in the next few years, through the agency of the capital market, the banking and postal systems would reach a near collapse stage as they would find it difficult



to handle this phenomenally growing load over and above the increasing work load connected with their own business.

#### 4. Corrective Measures to Minimise Delays in Processing of Applications and Realisation of Application Moneys

6.71 The Committee has received some detailed suggestions to minimise delays in the processing of applications and in the realisation of application moneys. The Committee has come to the conclusion that there is a considerable scope for minimisation of delays and consequently the cost of public issues if cheques/drafts and other instruments representing application moneys are realised expeditiously.

##### Issue of Security Cheques

6.72 In this connection, the Committee feels that if the applications are accompanied by pre-paid instruments like drafts, postal orders, cash or the proposed new instrument like the security cheque, as per specimen (1) annexed, not only the processing of applications for final allotment and refund of moneys can be speeded up but a lot of inconveniences and hardships can also be avoided to the investors, banks, companies, etc. However, obtaining of drafts or postal orders by the investors in times of heavy rush can be time-consuming or at times a frustrating experience. It is, therefore, felt that the instrument of security cheque would better serve the objective in view. The security cheques can be standardised under MICR technology to avoid tampering and issued by the banks and their branches in booklet forms at any time of the year in denominations of say Rs. 500, Rs. 1,000, Rs. 2,000, etc. These can be purchased by the investors from their respective bankers and annexed as such to the share application forms by filling the requisite details. If such a procedure is adopted, there would not be any need to change the existing format of the application form and while acknowledgement slips would be handed over to the investors, the application forms alongwith the uncashed security cheques could be sent to the Company/Registrar to the Issue by the designated branches of the bankers to the issue, for further action in the matter. It can also be arranged that at the time of finalisation of provisional allotment of securities but before the approval of the Board for allotment is obtained, a company can encash the security cheques of the successful applicants as per the provisional list to the extent of the allotment of shares to them. For the unsuccessful applicants, the security cheques can be returned, as such, to the branches of the banks issuing such security cheques, with the necessary endorsement on the back, to credit the amount represented by the security cheques to the respective accounts of the unsuccessful applicants. In case of partial allotment the excess application money can be returned by the company by means of a refund order. There may be initial problems in perfecting the system and its procedure, as it would be the case in any system tried out for the first time. However, to tackle the post issue problems faced by the companies and registrars to the issue on account of sheer volume of work involved, particularly when the public

issue of the companies are heavily over-subscribed and to ease the pressure on the banking and the postal systems and above all to reduce the cost of public issues considerably, there is no escape from devising a new instrument like the security cheque for facilitating payment of application money and speedier refund thereof. Once the system is introduced, the investor would get used to it. It may be mentioned that this new system of payment will not prevent investors from issuing demand drafts or postal orders or pay cash for the purpose, if they so wish. It may, however, be clarified that the financial institutions need not pay the application moneys through the pre-paid instruments. The Committee, therefore, recommends that suitable amendments to Sections 69 and 73 of the Companies Act, 1956 may be effected to enable the investors to use the security cheques for payment of application moneys and for legalising the procedure involved therein, after the use of security cheques for the purpose is approved by the Indian Banks' Association and the Reserve Bank of India. The Committee also suggests that the matter may be discussed by the Stock Exchange Division, Ministry of Finance, Government of India, with the Indian Banks' Association and the Reserve Bank of India.

##### Improvement in the format of the present application form

6.73 The processing of applications and refund of moneys to the investors can also be expedited by revising the present format of the application form itself. The present application form contains two parts : one—main part which calls for full particulars and second—a tear off acknowledgement slip at the bottom. There can be a third perforated part called the receiving bank's portion of the application form (as per specimen No. 2 annexed) which can contain the particulars which can be of use to the banks for clearance of cheques and drafts and which can be filled up by the applicants themselves. In such a revised application form the same serial number which appears in the third part may have to be incorporated in the main application form at any convenient place for the purpose of identification, reconciliation and record. If such a revised application form is used the detailed *modus operandi* for reconciliation, procedure for information transfer among the Companies, Banks and Registrars to the issue, etc. will be easy to work out.

6.74 It is felt that if this system is adopted processing of applications for new issues can be taken in hand on a day-to-day batch basis, problems connected with incomplete applications, returned or dishonoured cheques can be taken care of by the time the provisional allotment of securities is made and undue delays can be minimised, all along the line.

#### SECTION IV : FIXATION OF OVERALL CEILING ON THE COST OF PUBLIC ISSUES

6.75 The Committee discussed at length the question of fixing the overall ceiling on the expenses of public issues to control the cost of public issues in public interest. It is felt that a number of variable

and imponderable factors make it almost impossible to come out with a clear cut formula for fixing a ceiling on expenses to be incurred by the companies in respect of their public issues; more so because each issue of capital which comes to the market has its own peculiar characteristics and it is well high impossible to measure the investors' response in terms of expenditure incurred for each issue. At the same time, after examining, at length, the pros and cons of the question from every angle, the Committee has come to the conclusion that, in the larger public interest it should indicate some norms for overall expenditure which, in its opinion, are fair and reasonable and which the companies, both existing and the new, should try to adhere to, when they offer their securities to the public for raising the required resources from the market. The Committee, therefore, recommends that such norms for overall expenditure in respect of public issues by the companies be as under :

#### Equity and Convertible Debentures

- |                                |                  |      |
|--------------------------------|------------------|------|
| (i) Up to Rs. 5 crores         | Mandatory costs* | + 5% |
| (ii) In excess of Rs. 5 crores | Mandatory costs* | + 1% |

#### Non-Convertible Debentures :

- |                                |                  |      |
|--------------------------------|------------------|------|
| (i) Up to Rs. 5 crores         | Mandatory costs* | + 2% |
| (ii) In excess of Rs. 5 crores | Mandatory costs* | + 1% |

\*includes underwriting commission, brokerage, fees of managers to the issue, statutory press announcements, listing fees and stamp charges for mortgages.

6.76 At the same time, the Committee wants to reiterate that these are overall average norms. Some of the companies may find them liberal, while some others may not. It does not, however, mean that any company which is more enlightened, efficient and resourceful and which finds such norms liberal, cannot restrict its expenditure well below the limit recommended. In fact restricting of expenditure on public issues well below the norms set up by the Committee by any company would be treated by the investing public as an index of its efficiency and awareness of its responsibility to the society and provide a model for others to follow. It also means that any company which does not find such norms as liberal, can, if it so consciously plans, reduce the expenditure to satisfy the norms. Nor does the Com-

mittee feel that a fixation of such overall norms of expenses are inflexible for all time to come and hence they should be reviewed and revised suitably, if necessary, if the circumstances so warrant. In order to enforce some discipline on the companies in the matter, the Committee suggests that if the cost of public issue of any company exceeds the overall ceilings recommended by the Committee the excess expenditure, so incurred, by the company concerned should be disallowed for the purpose of taxation. The Committee, therefore, recommends that the Central Board of Direct Taxes may be requested to make suitable amendments to the relevant provisions of the Income-tax Act, 1961 to this effect. The Committee also desires that the auditors of the companies concerned should qualify their report suitably for the information of their shareholders and the Government if the cost of public issues of the concerned companies exceeds the overall ceiling prescribed.

6.77 The Committee wants to emphasise that every agency which is connected with the public issue owes an equal responsibility in the matter and should also extend maximum cooperation to the companies concerned to minimise their cost of public issues. The companies themselves have, of course, to be conscious of their own responsibility and have to establish closer liaison with these agencies to co-ordinate, monitor and follow-up every facet of the activities connected with their public issues and keep a close watch on the expenses incurred at every stage. In the ultimate analysis, there is no substitute, or for that matter there cannot be any, for self-restraint, self-discipline and consciousness about the need to minimise such costs on the part of all concerned with the public issues.

## SECTION V : CONCLUSION

The Committee, while being fully conscious of the fact that the cost of public issues of capital has to be curtailed, has tempered its recommendations by the paramount need to mobilise maximum possible resources of the community through the medium of the new issue market for meeting the rapidly growing requirements of industrial finance of the private corporate sector in the years to come. On balance of considerations, therefore, it has recommended both reduction and rationalisation of the cost of public issues wherever possible.



SPECIMEN 1

सभी शाखाओं पर देय  
PAYABLE AT PAR AT ALL THE BRANCHES

LOGO

**ABC Bank**

सिविलीटी चेक नं :  
Security Cheque No:

जारी तारीख :  
Date of issue :

HEAD OFFICE.....

शाखा :  
Branch :

## SHARE APPLICATION MONEY PAYMENT ORDER

Pay to \_\_\_\_\_ को

the sum of

|         |                          |
|---------|--------------------------|
| रु० ५०० | पाँच सौ रुपये            |
| Rs. 500 | Rupees Five hundred only |

की रकम

जारी तारीख से तीन महीनों के अन्दर अदा करें

Within Three calendar months from the date of issue  
on account of Shri/Smt./Kum./M/s

(SHARE APPLICATION NO.....)

For ABC BANK

### TO BE FILLED IN BY THE ISSUING BANK

If not encashed by the Payee, to be returned to ..... branch of .....  
at ..... place for being credited to the account no. .... standing in the name  
of the applicant.....



# **BANK'S PORTION OF THE APPLICATION FORM**

(For the use of Receiving Bank only)

Details to be filled in by the sole|first applicant.

Name : Mr.|Mrs.|Miss|.....

Address : .....

Number of Shares|Debentures applied for.....

Total amount payable on application  
.....

Date of issue of Cheque|Draft number and name of

Bank on which drawn : .....

Details to be filled in by the receiving bank.

Serial number of Application received.....

.....

Cheque|Draft sent for clearing, clearing on.....

.....

Date of receipt of Credit|dishonour of cheque.....

.....

Date of intimation of dishonoured to the managers  
to the issue noting the serial number of applications

.....



## CHAPTER 7

### REVIEW OF THE EXISTING SYSTEM OF BYELAWS AND REGULATIONS OF THE STOCK EXCHANGES RELATING TO TRADING IN SECURITIES AND MEASURES TO ENSURE SMOOTH FUNCTIONING OF THE STOCK EXCHANGES TERM OF REFERENCE NO. 6)

#### SECTION I: INTRODUCTION

7.1 The Stock Exchanges provide facilities to investors for buying and selling of securities by permitting them to enter into different types of contracts. The contracts may be for :

- (i) Spot Delivery i.e. for delivery and payment on the same day of the contract or the next day ;
- (ii) Hand Delivery i.e. for delivery and payment within fourteen days following the date of contract ;
- (iii) Trading for Settlement Business in specified shares i.e. for delivery and payment through the Clearing House, business being done in selected shares for not more than ten business days, and all the transactions being settled on specified dates fixed in advance by the Stock Exchange in accordance with a schedule of dates ;
- (iv) Special Delivery i.e. delivery and payment being completed within any time after fourteen days following the date of the contract.

7.2 Purchases and sales of shares made for hand delivery on a cash basis are expected to be settled through actual payments and delivery of securities within the stipulated time of fourteen days. However, in the case of certain active equity shares designated as specified shares, business is done on a settlement trading basis. Here, in addition to centralised delivery and payment through the Clearing House, the transactions for purchases and sales of shares are permitted to be carried over from one settlement to the other settlement, each settlement being of fourteen days' duration (i.e. of not more than 10 business days) with the overall maximum period being fixed at 90 days, at present.

7.3 Trading on the Stock Exchanges is mostly confined to industrial securities of public limited companies listed on the Stock Exchanges. So far as the equity shares are concerned, they are categorised as specified or non-specified shares for the purpose of facilitating free trading on the Stock Exchanges. A broad basis of certain norms and distinct criteria are laid down for selection of specified shares. The Stock Exchanges decide, on their own, on the inclusion of certain shares in the specified list taking into account factors like the shares being fully paid up equity shares, the minimum paid up capital, continued listing of shares for a minimum period of

three years, wide dispersal of shareholding among the public, dividend paying capacity on a continuing basis, volume of trading, etc.

7.4 For the purpose of trading in both specified shares and non-specified securities, stockbrokers, who are members of the Stock Exchanges, issue contracts to the investors, subject to the Rules, Byelaws and Regulations, and usages of the Stock Exchanges.

7.5 The Byelaws and Regulations of the Stock Exchanges govern various aspects of trading in securities in general, including procedures for settlement of bargains, carry over of outstanding transactions, delivery of securities, brokerage and contract notes, rights and liabilities of members and clients, procedures of arbitration between members inter-se and between members and non-members, defaults of members, powers of the Governing Bodies to deal with crises situations, disciplinary actions against the erring members, machinery for reporting and monitoring of securities transactions, norms for controlling the nature and volume of business and regulatory mechanism to safeguard against wide fluctuation in securities prices, prevention and eradication of kerb trading, etc.

#### SECTION II : TYPES OF CONTRACTS AND MARGINS

7.6 The Byelaws of the Stock Exchanges provide, as referred to hereinabove, for four types of contracts : (i) for spot delivery; (ii) for hand delivery; (iii) for trading for settlement business; and (iv) for special delivery.

7.7 However, for all practical purposes, share transactions take place mostly in specified shares wherein it is very easy to extend the period for the performance of such contracts. In the case of specified shares, carry over of purchase and sale position is permitted up to 90 days, as stated earlier with settlement facilities at the end of every 14 days. In a majority of such contracts purchase and sale positions are carried over from settlement to settlement even beyond the maximum stipulated period of 90 days. The differences in prices are settled at the end of each settlement period on the basis of making up prices fixed by the Stock Exchange authorities and the transactions are allowed to be carried over. The making up prices are fixed taking into account the closing price of the specified shares on the last business day of the current settlement and usually such making up prices are rounded off to



facilitate easy calculation. This happens because facilities are now provided to the purchasers to carry over their transactions at the turn of the settlement period through the medium of "budliwallas" by paying to the sellers, contago (budla) charges which vary from settlement to settlement, security to security and within each budla session, even in the case of the same security, depending upon the actual volume of deliveries to be given or taken by the investors for the settlement. Sometimes sellers also have to pay backwardation (dudla) charges to the purchasers when there is an oversold position in any security due to large scale short selling to such an extent that sellers find themselves unable to tender actual delivery of shares being demanded by the buyers.

7.8 Trading in specified shares, as indicated above, is subject to three types of margins, namely, carry-over margin, daily margin and ad hoc margin. Levy of margins enables the Stock Exchanges to impound a part of the rise or fall in the prices of specified shares and is thus one of the principal instruments of regulation and control of the speculative activity in the Stock Exchanges. Margins also help to ensure that the trading volume undertaken by a particular operator remains within his risk-bearing capacity and the resources at his command.

#### Carryover Margins

7.9 The Stock Exchange authorities fix making up prices in respect of specified shares at the end of each settlement period to enable share transactions either to be settled through the Clearing House by delivery and payment for the current settlement or to be carried over from one settlement to the other. Such making up prices are marked up and marked down by a uniform margin of 3 per cent to facilitate collection of margins both from the purchasers and the sellers respectively for providing the mechanism for carry over of their outstanding purchase and sale transactions to the next settlement. By claiming the margin compulsorily from both the purchasers and sellers in any security on the gross position carried over from one settlement to the other, the overall impact of the margins comes to 6 per cent of the value of shares carried over. (The gross position of a member in any security is the total of all the outstanding purchase/sale positions of different clients and his own outstanding position). The carry over margin is sometimes stepped up steeply from the minimum 3 per cent, in the case of a few very active or volatile shares with wide fluctuations in prices, whenever there is too much of speculative activity.

#### Daily Margins

7.10 At times, when prices of speculative volatile securities fluctuate violently daily margins are also imposed to control such price rises or falls with a view to ensuring orderly settlement of transactions. However, the rate at which daily margins are imposed depends upon factors like the extent of price rise/fall, technical position of the market, etc. Normally the rate of such daily margins does not exceed

10 per cent of the contract price. However, in recent months at the Bombay Stock Exchange the same has been as high as 40 per cent of the contract value, in view of the unprecedented boom conditions in the said market.

#### Ad hoc Margins

7.11 Apart from such types of margins, ad hoc margins are also collected from a few members who are observed to trade beyond their financial capacity and whose outstanding business is considered to be excessive from the point of view of their own resources or vulnerable to the health of the market.

7.12 It may be mentioned here that the levy of 3 per cent margin on purchases or sales carried over from one settlement to the other is compulsory and uniform and is generally levied. But, here there is no such standard rate of margin with regard to imposition of ad hoc margins or daily margins. Even the imposition of such margins depends on the subjective assessment and the reading of the market trends by the Stock Exchange authorities. Adhoc margins are levied to curb the excessive speculative business of certain members who indulge in such activities in the market depending upon the volume of business built up by them.

7.13 All such margins are required to be paid either in cash or by deposit of securities approved by the Stock Exchanges.

7.14 After the interim report on the subject was presented to the Government, the Ministry of Finance directed the Stock Exchanges conducting trading in "specified shares" to have two more types of margins with a view to curbing excessive speculative activity on the Stock Exchanges. First, the Stock Exchanges are required to impose automatic daily margins whenever the prices of a share rises by more than 5 per cent in a day or 10 per cent in a settlement period. The rate of margin in such cases will be 50 per cent of the price rise. This does not, however, apply to shares of the market value up to Rs. 50. Secondly, the Stock Exchanges are required to collect from their members overall margin at the rate of 5 per cent and 10 per cent in respect of the business in excess of aggregate of outstanding purchases and sales above Rs. 50 lakhs and Rs. 1 crore respectively. The Ministry of Finance has further directed that all types of margins imposed by the Stock Exchanges should be collected in cash and not in any other mode. From the experience of operations on the major Stock Exchanges in the country and available information on the volume of trading, it can be safely summarised that about 90 per cent of such transactions as reported to the Stock Exchanges by the members are transactions for settlement business. Such transactions are mostly carried over from the current settlement to the next settlement by payment of differences in the contract price and the making up price fixed for the shares, as also the budla charges for the carry over.

### SECTION III : SPECULATION

7.15 The basic need for allowing some amount of speculation in the securities market arises from the fact that a market based purely on investment transactions will often be unable to clear, without price disturbance, all the purchase and sale orders in a security as and when such orders arrive in the market. When the buy and the sell orders from genuine investors do not match in terms of volume at any time, the presence of the speculator or market operator is useful for maintaining market continuity. Hence, the volume of speculation which may be regarded as "reasonable and necessary" should be related to the above need, i.e. buy and sell orders from investors. It may be noted that this problem of the "time gap" cannot be solved by speculation based wholly on squaring up of differences but needs actual deliveries and payments so that investors who have given the orders are served. In addition, speculators can also assist proper price formation in the securities market provided they possess better knowledge, skill and judgment about prospective returns from the various securities than the ordinary investors. Thus, it may be seen that speculation which is within reasonable limits based on careful analytical studies of balance sheets of companies, objective appraisal and interpretation of trends in general economic conditions and market behaviour, intelligent anticipation of events, etc. has a useful role to play in evening out violent fluctuations in security prices and in ensuring marketability through larger volume of trading, frequency and continuity of prices and consequent liquidity in the markets. However, what seems to be going on in the majority of the Stock Exchanges, in the name of liquidity and continuity of prices, appears to be more in the nature of "gambling in differences". Even here if differences are paid in due time and transactions are completed and settled it may be well and good. But where huge differences out of such adjusted transactions arise, more often than not, payment difficulties are experienced, precipitating a crisis in the market leading to failures. What is worse is that such unhealthy speculation is not confined to specified shares. It has also spread to the non-specified securities wherein dealings are supposed to be settled on a cash basis every fortnight and also to the new equity issues before they are listed on the Stock Exchanges to the detriment of the uninformed investing public. These unhealthy trends in trading on the Stock Exchanges do not fit in with the smooth functioning of the Stock Exchanges as an integral part of the national financial system and the role they are expected to play in the mobilisation of capital for the industrial development of the country.

7.16 Excessive speculation on the Stock Exchanges in India is the root cause of frequent crises and consequent disruption of trading activities and distortion of price structure. In fact, the reports of the various Committees appointed by the State and the Central Governments since 1924 such as the Atlay Committee, the Morison Committee, the Gorwala Committee have all highlighted this problem of excessive

speculation. The Thomas Report also dealt extensively with the topic. The Securities Contracts (Regulation) Act, 1956 based on the Gorwala Committee's Report was "to provide for the regulations of the Stock Exchanges and of transactions in securities dealt in on them with a view to preventing undesirable speculation in them".

7.17 The Byelaws and Regulations of all the Stock Exchanges which were framed after coming into force of the Securities Contracts (Regulation) Act have, therefore, laid more emphasis on prescribing rules and procedures mainly for the settlement of speculative transactions and for resolving the problems arising out of them. The said rules and procedures appear to be somewhat deficient in protecting the interests of the genuine investors who constitute the main backbone of the mechanism of operations on the Stock Exchanges. Again notwithstanding the provisions of the aforesaid Act, the problem of excessive speculation still continues to plague the working of the Stock Exchanges. As stated earlier, about 90 per cent of the trading activity on most of the Stock Exchanges in the country is of a purely speculative nature and said to be concentrated on the specified shares, numbering about 210. Even out of these 210 shares, about 25 per cent thereof would be relatively more active than the others. In case of non-specified securities also, only a few shares are active, the rest being infrequently traded, as indicated in Chapter one. Even in such small group of non-specified securities considerable activity is now of a speculative nature. Such concentration of speculative activity in a small number of specified and non-specified scrips, resulting in artificial buoyancy neither provides the correct index of the state of the health of the stock markets nor does it help much in continuity of prices or in broadening of the investor interest. In the absence of a strict system of liquidity margins, this also leads to trading beyond one's means, violent price fluctuations and frequent crises.

7.18 It is, therefore, imperative to review the entire system of trading on the Stock Exchanges, particularly from the view point of controlling speculation.

#### Factors for Speculation

7.19 The major factors contributing to excessive speculation, witnessed in the Stock Exchanges, in the last few years may be summarised as follows :

- (1) Over trading by Stockbrokers on their own account and duality in functioning both as agent and principal ;
- (2) Insider trading ;
- (3) Illegal option and kerb trading indulged in by the stockbrokers ;
- (4) Large scale manipulation of the markets through rigging up of prices and bear raids to push down prices by a few outside operators who are not subject to the discipline of the Stock Exchanges ;

- (5) ~~The extreme narrowness of the markets and shortage of adequate floating stock of good scrips;~~
- (6) Role played by outside money to finance carry over of transactions ;
- (7) Lack of effective machinery for reporting, monitoring and inspection and audit of the market operations ;
- (8) Hesitancy on the part of the Governing Bodies to deal with crisis situations promptly, firmly and impartially ;
- (9) Present Byelaws and Regulations which are outdated to deal effectively with the present and emerging situations in the markets ;
- (10) Other factors aiding speculative activities such as lack of appreciation for timely and prompt disclosure of sufficient corporate information by companies, want of coordination and pursuit of common policies by the Stock Exchanges with regard to hours of trading, procedure for settlement of transactions, lack of uniformity in margins, etc.

Each of the factors has been examined in greater detail below :

#### (1) OVERTRADING BY STOCKBROKERS ON THEIR OWN ACCOUNT AND DUALITY IN FUNCTIONING BOTH AS AGENT AND PRINCIPAL

7.20 There is no strict demarcation in the functional specialisation among stockbrokers in our country as brokers and jobbers. Most of them act all the time as brokers as well as dealers on their own account. They not only act as agents by buying and selling securities on account of their clients but also as principals by buying and selling securities on their own account. The conflict of interest involved in this duality of functions, affects to a great extent the interests of the clients who do not derive the special attention of the stockbrokers as also the full benefit of prevailing market prices. The clients have also no means of knowing the exact price at which the stockbrokers have really executed the purchases and sales on their behalf, as brokerage is not separately shown in the contracts issued by the stockbrokers. Often, the stockbrokers are said to appropriate to themselves the transactions done on behalf of their clients based on their orders, when the transactions prove profitable. Similarly, some of the stockbrokers while executing the orders of the speculative non-member operators in the markets, indulge in over-trading on their own account. Such speculative operations are injurious to the health of the market.

7.21 Moreover, most of the stockbrokers in the country are small, possessing slender monetary resources and they often buy and sell shares on their own account. Their transactions are mostly of a speculative nature.

7.22 Some of the big stockbrokers who want to evade payment of margins or avoid disclosing the true identity of their clients, route their business through small stockbrokers. When the big stockbrokers or outside operators fail to honour their commitments, for one reason or the other, such stockbrokers and their authorised assistants also get caught unawares, leading to settlement difficulties, arising out of the outstanding transactions of the defaulting brokers and outsiders. This virtually paralyzes the market mechanism, leading to payment difficulties and defaults.

7.23 There are also various other authorised clerks, known as "taravaniwallas" who operate in the markets by buying and selling shares on their own account, square up their transactions mostly on the same day and settle the differences by payment in cash, thus aggravating the bullish or bearish trends in the markets through their speculative dealings.

7.24 The freedom to trade on their own account on the part of the small stockbrokers and taravaniwallas, often tempts them to trade beyond their means. No doubt the small stockbrokers and taravaniwallas have some role to play but unfortunately they generally overtrade and indulge in excessive speculation beyond their capacity. In fact, their speculative activity often creates a false market which does not reflect the true values of the shares. There should, therefore, be a fool proof system of regulating their trading activities and limiting their operations in accordance with their financial means.

#### (2) INSIDER TRADING

7.25 Insider trading generally means trading in the shares of a company by the persons who are in the management or the company, or are close to them on the basis of undisclosed price sensitive information regarding the working of the company, which they possess but not available to others. Such trading as it involves misuse of confidential information is unethical tantamounting to betrayal of fiduciary position of trust and confidence.

7.26 Insider trading is rampant in the Stock Exchanges in the country and is one of the principal causes of excessive speculative activity. It is common knowledge in the market that some of the persons connected with industrial houses and top executives of the companies, including their directors, frequently trade in shares of their own company or group companies. Even persons employed in the offices of the solicitors, auditors, financial consultants and financial institutions in possession of undisclosed price sensitive information are reported to be indulging in such trading. What is more unhealthy is that most of the stockbrokers while putting through such speculative transactions of insiders, themselves over trade on their own account on the basis of such information. They also pass on such information to some of their clients and advise them to purchase sell particular shares. The Stock Exchanges should take effective steps to check this menace. A scheme of surprise inspection of the books of accounts of

stockbrokers should be regularly done to verify whether they indulge in overtrading and the sources of such excessive trading. There should also be statutory prohibition of insider trading.

7.27 To establish healthy trade practices in the Stock Exchanges and to sustain the confidence of the investors, such insider trading should be regulated by law. Any person found guilty of such trading should be fined heavily for first offence and imprisoned for a term upto 5 years for second and subsequent offences.

7.28 In the USA, apart from specific legislation on the subject, the Supreme Court and Courts of Appeals of every State have issued guidelines, on the subject, to maintain proper 'fiduciary standards', to ensure justice and equity with regard to insider trading and to protect the interests of the investing public. Looking to the seriousness of the offences involved in insider trading, even the Securities and Exchange Commission had in 1983 recommended imposition of civil penalties, in addition to criminal proceedings, upto 3 times the profits gained or losses avoided, in cases involving use of non-published price sensitive information or material. In UK also, the Companies Act was amended in 1981 to make insider trading a criminal offence in certain eventualities and the Council of the Stock Exchanges itself had in 1981 issued a model code with regard to transactions by directors and their relatives and employees of the listed companies.

7.29 However, no such comprehensive legislation to regulate insider trading is framed as yet in our country. It is true that certain provisions of the Companies Act, 1956 namely, Section 307 and Section 308 do require disclosure of the shareholdings of the directors and their interest in the companies which in turn are also required to maintain registers of such shareholdings. However, these provisions do not specifically prohibit or provide any safeguard against insider trading as such. Therefore, these regulations do not in any way prevent some of the directors and executives of companies and even their relatives from taking undue advantage of the price sensitive inside information about the companies to profiteer out of it at the expense of the genuine investors. So far as other persons such as solicitors, auditors, executives/officials of the company, etc. there are no provisions in any legislation in our country.

### (3) ILLEGAL OPTION AND KERB TRADING INDULGED IN BY THE STOCKBROKERS

#### (a) Option Trading

7.30 An option is a business contract. It permits a person to buy or sell shares of any company at a certain price (the striking price) for a certain period of time, irrespective of the fluctuations in the share prices during that time. In brief, an option is just a right to buy or sell shares in the future at a price fixed today. A consideration amount, called the premium or option money, has to be paid by the person applying for the option for exercising this privilege. The premium fluctuates from minute to

minute as the options are continuously traded. The 'Writer' is the person that sells the option. When one buys the option, he is hoping that he will make a profit through the option. The 'expiration date' is the day on which the contract between the writer and the buyer expires. The 'striking price' is the price that the buyer pays 'the writer' for the shares if he decides to exercise his option.

#### (i) Call Option

7.31 In a call option a person gets a right to buy anticipating a rise in price. He actually purchases a right of buying a specified number of shares at a fixed price that may be exercised at his will or choice within a time limit, before a definite future expiration date set out while entering into the contract. The option holder i.e. the person buying the option has the choice to claim the shares at the contract price or allow the right to lapse. Thus a call option is a contract to buy a certain quantity of a particular share in trading units at a specified price within a specified period of time. This enables the option holder to later sell the shares for a profit at the higher future market price.

#### (ii) Put Option

7.32 In a put option a person gets a right to sell anticipating a fall in price. He actually purchases a right of selling a specified number of shares, at the agreed option price fixed that may be exercised at his will or choice within a time limit before a definite future expiration date set out while entering into the contract. The option holder has the choice to deliver the shares at the contract price or allow the right to lapse. Thus a put option is a contract to sell a certain quantity of a particular share in trading units, at a specified price within a specified period of time.

7.33 Option trading in India is popularly known as 'teji-mandi' operations, whereby speculators re-insure and, in fact, limit their exposure to the risks of adverse rises or falls in the prices of shares in which they speculate. According to the Securities Contract (Regulation) Act an option in securities means a contract for the purchase or sale of a right to buy or sell, or a right to buy and sell securities in future and included a 'teji', a 'mandi', a 'teji-mandi', a 'gulli', a 'put', a 'call' or a 'put and call' in securities. The word 'teji' denotes an upward trend in prices and implies a bullish view of the market. It is equivalent to a call option in the foreign markets. On the other hand, 'mandi' refers to a downward trend in prices and bearish view of the market. A 'mandi' in India is equivalent to the put option abroad. A 'jota' as it is called in Bombay market is a put-and-call or double option and operates as a 'teji' or a 'mandi' depending upon the market trend. Such option trading takes place on a daily, weekly, fortnightly or monthly basis. Options of a duration longer than a month are not in operation in India.

7.34 Generally these transactions are put through by non-member brokers. For the services rendered

by them, they get brokerage from the writer of the transactions.

7.35 Option trading is banned under the provisions of Section 20 of the Securities Contracts (Regulation) Act. Despite the fact that the option transactions are banned and made cognizable offences, they are reported to be carried on, on a large scale, surreptitiously particularly at Bombay, Delhi, Calcutta and Ahmedabad Stock Exchanges. All such transactions are generally regularised by reporting them to the Stock Exchange authorities during trading sessions after the validity period of different types of option trading is over. Such type of option trading, as it requires special skills and experience, is largely confined to a few speculative operators. Orders for purchases or sales emanating from such trading are instrumental in rigging up or pushing down share prices. This leads to manipulation of the markets, accentuating speculative activity and totally distorting the normal rhythm and trends in the functioning of the Stock Exchanges.

#### (b) Kerb Trading

7.36 The Bye laws of the Stock Exchanges allow the members to hold trading sessions on the floor of the Exchanges to buy and sell securities on the days and during hours prescribed by the Governing Bodies of the Exchanges, from time to time. The Stock Exchange authorities also permit their members to conclude the transactions on phone, by telex or in person, in their offices. Thus, any trading which is done outside official business hours or outside the offices of the stockbrokers is called kerb trading i.e. unofficial dealings in securities in street corners and pavements adjoining the Stock Exchange premises.

7.37 Kerb trading is a sort of a parallel unofficial market, operating practically round the clock, in a few active scrips listed on the Stock Exchanges. All the dealings in the kerb are out and out speculative transactions which are concluded by a small group of members and their authorised clerks and professional non-member operators. Such trading on the kerb is preferred by big operators and manipulators. Prices of active scrips can be manipulated with ease with only a small volume of business in the kerb market.

7.38 Kerb trading can also be used to take advantage of the inside information about the working of the companies or to create false markets to cash in on false rumours and gossips which are easy to spread in such markets, to rig up the market and to dictate the general pattern of price trends in official trading sessions.

7.39 The kerb market comes handy to square up one's outstanding position in the event of any price sensitive information being received after the close of the official business relating to the working of the company, announcement of bonus, dividend or right issue, change in the Government policies, political developments, etc.

7.40 Kerb transactions are mainly reported or recorded by members at the opening prices of shares on the next day and are accepted by the Stock Exchange authorities.

7.41 It is often noticed that wide fluctuations in the prices of the leading shares of the Stock Exchanges mainly occur in the kerb trading and disturb the smooth pattern of trading during official hours, posing a serious threat to the stability of the markets and even leading to serious crises therein.

#### (4) LARGE SCALE MANIPULATION OF THE MARKETS THROUGH RIGGING UP OF PRICES AND BEAR RAIDS TO PUSH DOWN PRICES BY A FEW OUTSIDE OPERATORS WHO ARE NOT SUBJECT TO THE DISCIPLINE OF THE STOCK EXCHANGES

7.42 Lure for making quick money is attracting persons from all walks of life to the Stock Exchanges. This is more applicable in case of persons who have made money in other fields of commerce, trade and industry and who wish to multiply the same quickly without much effort.

7.43 With the banning of forward trading in a number of commodities like oilseeds, cotton, silver, etc. at different periods since 1956 and strict supervision and control over the activities of speculators therein, the attention of speculators is stated to be increasingly concentrated on the Stock Exchanges. Even otherwise, most of the big time non-member operators on the Stock Exchanges have close links with the commodity markets. Some of the big time operators are also stated to be industrial magnets or people connected with certain industrial houses. Others are stated to be independent speculative dealers who, having financial resources at their command, operate in the market in their own right.

7.44 Such operators, in association with some of the members, often speculate heavily and accumulate large business in some of the leading scrips in the specified list upsetting thereby the normal functioning of the stock markets. They rig up the prices of shares, arrange finance from outside, at the turn of each settlement, take temporary deliveries of scrips and create artificial scarcity to accentuate the upward trend in prices and profiteer out of price fluctuations. They do not even reveal their position or identity in the markets as most of their business is not only distributed among the various stockbrokers in one market but is also spread over to other markets. These operators invariably liquidate their position in the markets when gullible investors, lured by the prospects of making quick profits, enter the market generally at the wrong time, enabling them to realise profits by delivering the securities at high prices. When they feel that speculation in other markets is more profitable or when some adverse news is received by them or budla rates become prohibitive and/or the funds for financing their carry forward transactions are not available these speculators move out of the securities industry. Thus, by building up

the bull position and managing to absorb deliveries of the shares purchased by them on a temporary basis with outside money and by short selling and bear hammering and off loading or dumping the securities when their purpose is achieved, they are in a position of vantage to rig up prices to dizzy heights or engineer steep falls therein, to suit their strategy.

7.45 They often form syndicates to manipulate the market upward or downward and take recourse to kerb and option trading also to achieve their objective. They even go to the extent of spreading false rumours, put through bogus transactions, manage to get printed in the newspapers distorted versions or wrong reports about the working of the companies or the developments therein, act in concert with obliging stockbrokers to create a false market activity through match orders, etc. in order to play on the psychology of gullible and ill-informed public and to profiteer at their expense.

7.46 Such sharp practices and rigging up of the premium by some of the company promoters/investment managers in the case of new issues of capital before they are listed on the Stock Exchanges, to hoodwink the investing public and succeed in their 'staggering' operations to make speculative gains, have also become common these days.

7.47 All such transactions/operations by outsiders are mainly instrumental in destabilisation of the markets and emergence of frequent crises on the Stock Exchanges.

#### (5) THE EXTREME NARROWNESS OF THE MARKETS AND SHORTAGE OF ADEQUATE FLOATING STOCK OF SCRIPS OF GOOD COMPANIES

7.48 The markets for equity shares are extremely narrow and limited in our country. Very often, a genuine investment buyer is not able to find a ready seller in the market for a majority of shares and vice versa. In the result, the occasional transactions in some of the scrips influence, to a considerable extent, the level of prices. This is evident from the following. Out of over 4000 companies listed on the Stock Exchanges, there are not more than 500 scrips, both in specified and non-specified securities, where there are frequent transactions and which can be called fairly active. Besides, the availability of floating stock in reasonable quantity to satisfy the requirements of both the institutional and individual investors is limited to a few selected scrips, numbering not more than 50, even out of the said active scrips. One of the principal reasons for the extreme narrowness in the market is the growing shift in favour of the shareholding of the institutions and promoter groups and inter-corporate investments. As stated in Chapter One, Development and Investment Institutions have sizeable shareholdings in a number of companies on account of the underwriting developments, exercise of option to convert loans into equity shares, besides market purchases for investment of surplus funds. The Investment Institutions, namely the Life Insurance Corporation of India, the General

Insurance Corporation of India and its subsidiaries and Unit Trust of India keep on buying and adding to their portfolios good growth scrips, by investing, on a continuing basis, sizeable funds at their command, year after year. And at the same time, except for Unit Trust of India, no other institution is active in selling its shareholdings in the markets periodically. And even Unit Trust of India has its own limitations in this regard. Some of the Development Institutions do sell their shareholdings in the markets from out of their portfolios off and on but the quantity of shares they sell is small. Therefore, this does not have any significant impact on the trading in the markets. Besides, most of the time, such sales by Development Institutions are generally absorbed by the investment institutions. What is more, the share sold by the Unit Trust of India in sizeable lots are also, more often than not absorbed by the Life Insurance Corporation of India or the General Insurance Corporation of India and its subsidiaries.

7.49 Due to the aforesaid factors Institutions are, on the whole, net buyers of equity shares in the markets and in the process, continuously dry up the supply of securities that would be otherwise available for individual investors. The new issues of capital which are offered to the public by good companies, though substantial in many cases, are not sufficiently adequate to augment the supply of equity to any significant extent particularly in the context of increasing investors' interest. The promoters and the foreign collaborators also retain substantial percentage of shareholdings with them for the purpose of continued management control and hence they do not off-load their shareholdings. At the same time, the existing management/promoters themselves acquire, through the medium of their trusts, investment companies, growth funds, etc., more shares from the markets to strengthen their shareholdings to consolidate their control over the companies. The individual investors are eager to acquire good scrips for long term investment. In this background, most of the managements of the existing companies also do not wish to issue further fresh capital to augment their equity capital to a significant extent inhibited by the fear of losing their control over the companies on the one hand and reservations on the possibility of servicing the enlarged capital, at a satisfactory rate of dividend commensurate with that of the preceding years, on the other hand.

7.50 In addition to these basic factors, industrial entrepreneurs normally prefer to raise required financial resources, as far as possible through loans and debentures primarily for the reason that raising of financial resources by way of equity shares has become extremely expensive and costly. Further, equity shares of new companies are not generally attractive for the investors as they may have to wait for a number of years during the gestation period for a return on their investments. Yet another factor in favour of raising resources through loans, deposits and debentures is that the cost is comparatively lower and the interest paid thereon is a deductible expenditure on the earnings of the companies while the dividend



on equity is paid out of after-tax earnings. Since the equity profits accrue to shareholders after payment of corporate taxes, offering of 12 per cent return on equity at current corporate tax level, would necessitate earning of around 24 per cent pre-tax return on equity, if the company is in the tax bracket. The cost of loans obtained from the banks, term lending institutions or in the form of non-convertible debentures and deposits is relatively quite low.

7.51 As a result of these developments the net offering of the good equity shares in the markets from the point of view of investors, is getting increasingly depleted resulting, thereby, in limited availability of the floating stock of such shares, particularly of the long established and well managed companies.

7.52 A number of these shares, therefore, command market prices that reflect more often their scarcity value than their intrinsic worth as determined by the rate of return, earnings, prospects for further growth in the earnings, etc.

#### (6) ROLE PLAYED BY OUTSIDE MONEY TO FINANCE CARRY OVER OF TRANSACTIONS

7.53 In financing carry over of substantial speculative transactions of the non-member operators and some of the stockbrokers, finance from outsiders has come to occupy key position in the absence of availability of bank finance to stockbrokers even in the case of genuine investment business. It is observed that the main attraction in providing such finance for speculative transactions in shares is the attractive rate of interest and availability of better margin of easily realisable securities.

7.54 Such finance, being of a short term nature, while enabling the operators to take temporary delivery of shares from the markets, often lands the operators into serious financial difficulties if it is withdrawn suddenly for any reason, obliging the operators to liquidate their position prematurely. Hence, provision of outside finance by giving impetus to excessive speculation activity in some of the leading Stock Exchanges, exercises a baneful and destabilising influence on the trading activity in the Stock Exchanges.

#### (7) LACK OF EFFECTIVE MACHINERY FOR REPORTING, MONITORING AND INSPECTION AND AUDIT OF THE MARKET OPERATIONS

##### (a) Reporting of Transaction

7.55 The volume of speculative trading done in the stock markets is observed to be much more than what is actually reported to the Stock Exchange authorities. A part of the speculative business settled by way of adjustments before the settlement day, is reported to be recorded privately by the stockbrokers. Again, some of the contracts for purchases and sales are squared up within the period of 14

days i.e. the shares purchased during a period are sold later in the same accounting period or vice-versa and differences are settled. Such transactions are not generally reported to the Stock Exchanges. A part of the daily business done by authorised clerks and taravaniwallas, on their own account is also not reported. It may be noted that some of the unreported transactions, are often squared up by the stockbrokers with the help of outside money by taking delivery from the markets. Yet another type of transaction which goes unreported is the large scale business done in the stockbroker's offices and business distributed by big stockbrokers among other small stockbrokers. In this way, a sizeable proportion of speculative business is not reported to the Stock Exchanges. Thus, the Stock Exchange authorities do not get a clear picture on a particular day of the volume of business done by the stockbrokers. In such an unfortunate situation where there is a large scale evasion of reporting of the transactions effected by the stockbrokers, the Stock Exchange authorities cannot, naturally, be in a position to gauge the extent of the actual volume of transactions and market positions to assess whether there is any excessive build up of outstanding business which stands in the way of devising proper policy measures to tackle the emerging crisis situations. Most Stock Exchanges are further handicapped by the lack of modern computer or micro-processor facilities to process and analyse available information for effective action.

##### (b) Monitoring of Transactions

7.56 The Stock Exchange authorities do not seem to have any inbuilt effective machinery to monitor (i) activities of brokers to ensure settlement of contracts concluded by them on due dates, to see whether they speculate beyond their financial means and engage themselves in operations on other Stock Exchanges and involve themselves in kerb and option markets, etc.; (ii) changing trends in trading in securities on the floor of the Exchanges, to judge and form an overview of the sentiments of the markets; (iii) due compliance by the listed companies both in letter and spirit with the provisions of the listing agreements and other conditions and requirements thereunder, etc.

##### (c) Inspection and Audit

7.57 The Securities Contracts (Regulation) Rules, 1957 require a stockbroker to maintain books of accounts and certain other documents like register of transactions (sauda books), ledgers, journals, cash books, pass books, documents giving particulars of shares and securities received and delivered etc. under Rule 15 thereof. However, there does not seem to be any regular machinery for proper inspection by the Stock Exchanges to find out whether the members maintain proper books of accounts and other documents as required by the said Rule. Hence at present, there are no means to check up whether the stockbrokers over trade or indulge in kerb trading or excessive speculation or trading in securities



before, listing or involve themselves in financial improprieties or other irregularities or evade payments of margins by making false entries in their sauda books, etc.

7.58 Only recently in 1984, detailed guidelines were issued by the Stock Exchange Division of the Ministry of Finance in consultation with the Institute of Chartered Accountants of India for the audit of the books of accounts and other documents required to be maintained by member brokers under Rule 15 of the Securities Contracts (Regulation) Rules. Such audit required to be conducted by the Chartered Accountants, will take place in respect of the financial year, beginning from 1st April, 1984. The audit provisions do not cover the books of accounts and other documents which might be maintained by the authorised clerks and subbrokers who also transact sizeable business. Therefore, audit of the books of accounts of members by themselves would not bring out whether the business of active stockbroker is distributed among the other stockbrokers or not and other irregularities or acts of financial indiscipline committed by the stockbrokers. Nor would it be of much use to curb tendencies on the part of the stockbrokers to over trade or indulge in unhealthy speculation unless specific comments from the auditors on such and other related matters are asked for. Thus, the nature and scope of audit in the opinion of the Committee is not adequate to enforce financial discipline or to compel members and their staff to make fuller disclosure to the stock Exchanges of their dealings.

#### (8) HESITANCY ON THE PART OF THE GOVERNING BODIES TO DEAL WITH CRISIS SITUATIONS PROMPTLY, FIRMLY AND IMPARTIALLY

7.59 One of the major factors contributing to situations of excessive speculative activity and frequent crises on the Stock Exchanges is the failure on the part of the Governing Bodies to enforce strict observance of the Rules, Byelaws and Regulations by the members of the Exchanges.

7.60 Under the existing provisions of the Rules, Byelaws and Regulations governing the Stock Exchanges, adequate powers are vested in the Governing Bodies to take strict disciplinary action against members indulging in excessive speculative activity. However, it is complained that Governing Bodies often fail to enforce such Rules, Byelaws and Regulations rigourously even when they are seized of the matter, try to be lenient towards the erring members and wink at their malpractices and allow the situation to drift even though timely action to curb speculative activities of members may be called for.

7.61 Newspapers, often highlight reports to the effect that some of members of the Governing Bodies themselves speculate in the Exchanges and are in league with the non-member operators. They are alleged to trade in the markets on their own account to take advantage of the price sensitive and confidential information becoming known to them.

7.62 At present, the system which is followed for the purpose of controlling speculative business such as imposition of margins, levy of penalties and suspension of stockbrokers has not been effective as margins levied are too minimal and are imposed by the Governing Bodies after the damage is done to the market mechanism of the Stock Exchanges by excessive speculation. Even when the margins are levied, they are not deterrent and other Stock Exchanges do not reciprocate by imposing similar margins. In some cases, unnecessary leniency is also shown to the erring members indulging in heavy speculation, the penalties imposed being negligible.

#### (9) PRESENT BYELAWS AND REGULATIONS WHICH ARE OUTDATED TO DEAL EFFECTIVELY WITH THE PRESENT AND EMERGING SITUATIONS IN THE MARKETS

7.63 As stated earlier, the Byelaws and Regulations of most of the Stock Exchanges, framed pursuant to the provisions of the SCR Act, lay great stress on controlling trading for settlement business in shares. Even though, forward trading in shares has been banned from June 1969, and the ban still exists, the Byelaws and Regulations which were in force before the ban have not been amended in an adequate manner. However, a new system of trading for settlement business has been introduced in case of hand delivery contracts in certain specified shares. The margins in these specified shares continue to be governed by more or less the same Byelaws and Regulations in force before the ban, excepting certain specific amendments which have been introduced. For example, the maximum period for carry over of transactions in case of specified shares is now fixed at 90 days. Still, the transactions can be virtually carried over indefinitely, as was being done in the past, by entering into fresh contracts for purchases or sales at the end of each settlement period, without involving any payments for shares purchased or without giving delivery of the shares sold. It is also possible, as in the past, to offset the contracts for the purchases and sales within the same settlement period by entering into reverse contracts and settling the accounts, through payment of differences. This type of speculative activity has incidentally percolated into the non-specified shares also, where no margins are required to be paid and where the securities can be made to move up and down sharply through manipulation.

7.64 As a result, excessive speculative activity is a common phenomenon on most of the Stock Exchanges in the case of specified and certain active non-specified shares.

7.65 The system of trading in securities in the Indian Stock Exchanges has some inherent deficiencies. One can purchase or sell shares, on a cash basis or a forward basis without any initial financial input. One can thus place orders for speculative purchases or sales of shares without any commitment to pay for the shares purchased or give delivery for shares sold.

7.66 The prices of individual scrips go up and down in the market, depending upon the performance of the companies, and changes in the operational environment. However, the present pattern of trading where there is no prior commitment to compulsorily make payment for shares purchased and to give delivery of the shares sold, leads either to excessive buying by bulls or unwarranted large selling by bears. It has been repeatedly noticed that while swings in prices of certain leading scrips take place quite often in the markets, at times the markets are pushed up by bull operators without due regard to the actual performance of the companies or intrinsic value of their shares and prevailing circumstances in which they operate. At other times, the markets are pushed down by bear speculators by hammering down prices resulting in panic and wide spread liquidation of holdings and losses occur even though the corporate performance may not have changed much. These types of swings in prices are largely due to rigging and manipulation of the markets.

7.67 The present system, it is noticed, encourages short selling i.e. selling securities even without possessing the same. This mechanism of short sales provides free facility to the seller to sell shares and hold on to the transactions as long as he wants without any thought of completing them till the price comes down to enable him to buy back from the market and complete delivery or square up the transaction and pocket the difference. For doing so, he is, in fact, paid contango (budla) charges by the purchasers of shares, apart from keeping his sales position open in subsequent settlements. The seller, however, may be required to pay the difference at the end of the settlement period only in case the price of the shares sold by him goes up. Sometimes the bull operators may suddenly demand deliveries of shares bought at the time of the settlement and this may lead to unhealthy effect on the entire market.

7.68 There are no special rules for governing short selling though the Governing Bodies are vested with discretionary powers to prohibit such short selling in emergencies in the markets. Such being the position, large scale short selling is often resorted to by the operators to depress the prices with a view to making quick profits. Short selling has a role to play in moderating excessive speculative rises in prices. However, in narrow markets as ours, short selling, on a large scale, often leads to crises when deliveries are demanded by the bull operators and the sellers are not in a position to give the same. The Committee is of the view that there should be specific parameters fixed for short sales limiting them to the price ranges in a security for the day on the U.S. model.

7.69 Under the existing Byelaws and Regulations, again there is nothing to prevent bull operators to arrange finance from outside source to carry over their transactions or take the deliveries from the markets at the close of the settlement periods and artificially manipulate contango (budla) transactions. The bull operators also indulge in kerb and

option trading at the time of settlement to strengthen their hold on the markets and to rig up closing quotations so that making up prices are fixed by the Stock Exchanges based on such quotations.

7.70 Moreover, the present system of nominal uniform margin of 3 per cent both for sales and purchases, being too marginal does not seem to have any effective impact on the speculative transactions. This has been observed particularly when the same shares whose delivery is taken by arranging finance from outside can be used for margin purposes. Besides, the scheme of uniform system of margin of 3 per cent by itself does not take into account the speculative build up in individual scrips or does not have an inbuilt mechanism to deal appropriately distinguishing between the bullish or bearish trends in the market. Even the payment of the 3 per cent margin is attempted to be avoided by some of the speculators by closing contracts within one settlement period and re-opening the same for the next settlement without making any payment of margins. It is also possible under the present Byelaws and Regulations to parcel out and spread one's business among different stockbrokers to avoid payment of margins. Similarly, by arranging finance from outside and taking up temporary deliveries, it is possible to evade margins.

7.71 The period of 90 days fixed for final settlement of transactions by making payment or taking delivery is also long enough to delay fulfilment of contracts enabling operators to indulge in speculative activity.

7.72 Thus, liberal facilities provided for carry over of transactions under the present Byelaws and Regulations, including imposition of only nominal margins at the end of the settlement periods, tend to encourage speculative transactions. When matters get out of hand, such situations may often permit crises of alarming proportions to develop. The system of margins should, therefore, be made more effective and enforced rigidly right from the time the transactions in securities are concluded.

#### (10) OTHER FACTORS CONTRIBUTING TO SPECULATIVE ACTIVITY

7.73 The other factors contributing to excessive speculative activity on the Stock Exchanges, is the lack of adequate and timely publication of information about the working results of the companies, proposals of bonus and rights issues of shares and other important developments relating to corporate performance and having a bearing on the Stock Exchange quotations. This normally leads to guesswork and market gossips and at times even to spread of false rumours resulting in wide fluctuations in share prices. All these provide scope for manipulations of the markets by the unscrupulous operators.

7.74 Excessive speculative activity is also encouraged by lack of coordination and adoption of common policies by all the Stock Exchanges, particularly the major ones, with regard to instant dissemination of information about prices of securities

quoted on different Exchanges, publication of volume of business, fixation of common dates for settlement of transactions, notice of closure of transfer books, marking of quotations as cum-dividend, right, bonus or ex-dividend, right, bonus prescription of uniform margins in case of common specified shares, collection of information of the main operators' trading on different Stock Exchanges and details about their business and inter-market transactions, definition of good or bad deliveries, prevention of kerb trading, computerisation of operations, standardisation of trading procedures and practices for deliveries and payments of securities, trading units of marketable lots, denominations of the face value of securities, etc.

7.75 It has been pointed out, earlier, that one of the factors leading to excessive speculative activity is the trading in securities after official trading hours. Similarly, considerable business is transacted outside the floor of the Stock Exchanges and transactions between members are executed in the offices of the brokers. It is also stated that many of these transactions are not reported to the Stock Exchanges and, therefore, do not come under their discipline and regulation. In this context, trading in securities which has recently been increased from 2 to 3 hours of the working day, with a number of holidays intervening and business being frequently suspended for one reason or the other on many days, is still too short for effectively handling the increasing volume of business. Here again the volume of trading is concentrated only in the active scrips in both specified and non-specified groups, business in relatively less active scrips either not taking place at all for days together or taking place rather infrequently. Limitations of hours of trading, thus, causes lot of hardships and also aids unauthorised speculative activity in the kerb and in the offices of the stockbrokers and leads to other types of market problems.

7.76 It may be mentioned in this connection that the trading hours are from 10 a.m. to 4 p.m. in the New York Stock Exchange, from 9.30 a.m. to 3.30 p.m. in the London Stock Exchange, from 9 a.m. to 11 a.m. and 1 p.m. to 3 p.m. in the Tokyo Stock Exchange, from 9.30 a.m. to 11 a.m., from 11.15 a.m. to 12.30 p.m. and from 2.30 p.m. to 4.30 p.m. at Singapore Stock Exchange and from 10 a.m. to 12.30 p.m. and 2.30 p.m. to 3.30 p.m. in Hongkong Stock Exchange. Moreover, there are not so many intervening holidays as we have in our Stock Exchanges and stoppage of trading on account of settlement days, suspension of business, etc., are also rare occurrences. In fact, most of the foreign Stock Exchanges, as stated elsewhere in the Report on "Measures to improve services to the investors" are now thinking of round the clock trading facilities.

#### SECTION IV : EXISTING PATTERN OF REGULATION

7.77 Having examined some of the main causes for excessive speculative activity and limitless over-trading characterising the pattern of trading in a

majority of the Stock Exchanges in India today leading to frequent crises therein, it is proposed to examine the effectiveness and adequacy of the existing techniques of control and regulatory mechanism to tackle the same.

7.78 The Governing Bodies of the Stock Exchanges have been bestowed with wide discretionary powers to ensure that trading in securities is conducted in a free and fair manner and that stable market conditions are maintained. The Governing Bodies can fix such carry over, daily and adhoc margins as they may decide to regulate trading in securities. They can also fix such making-up prices as may be warranted by a given situation. They have also powers to prevent cornering of shares by any individual, interest or group to acquire control of any security or dictation of arbitrary prices by them and to prohibit further dealings in the said security, while allowing closing out or liquidation of existing contracts. They can shift any vulnerable security from the specified list if there is excessive over-trading or cornering in it. They can also regulate backwardation charges. Similarly, the Governing Bodies can prevent bear raids or reckless heavy sales creating conditions of panic and prohibit short selling in any security. They can fix a minimum price for any security, close the market and prohibit further dealings while allowing closing out or liquidation of existing contracts. They can expel or suspend members or withdraw all or any membership rights if the members disobey, contravene, disregard or willfully evade any of the Byelaws and Regulations or any resolution, direction, decision, etc. of the Governing Body or indulge in any disreputable or fraudulent transactions or dealings with any person, (whether a member or not) or in any conduct, proceeding or method of business which is unbecoming of a member or inconsistent with just and equitable principles of trade. Similarly, members can be fined, reprimanded, censured or warned for any misconduct, unbusiness like conduct or unprofessional conduct.

7.79 While the Governing Bodies are armed with such wide powers, it is unfortunate that they have been too lenient or vacillate in exercising their powers and have failed, more often than not, in tackling the situations demanding and stern action. Hardly a few members have been expelled despite grave offences. Suspension of members has not been for sufficiently long periods to have any deterrent effect. Even the quantum of fines imposed has not been commensurate with gravity of the offences. Moreover, all these steps are left to the discretion and subjective judgement of the influential members of the Governing Bodies.

7.80 At the same time, the experience indicates the need to strengthen the powers conferred on the Governing Bodies by the Byelaws and Regulations of the Stock Exchanges in certain respects. The Governing Bodies cannot, at present, direct the members not to deal with any non-member who may, through his operations, upset the market equilibrium; cannot even get any regular or surprise audit of the books of accounts of members done; have no specific powers to have searches made against members and documents recovered from the defaulting members; have no powers to regulate insider trading; cannot without

statutory authority, compel listed companies to honour commitments under the listing agreements except delisting the shares which would affect the interests of the investors of the company; cannot regulate inter-market transactions of members; etc. Even within these limitations, when the measures are taken by the Stock Exchange authorities to stabilise the markets, they are quite often withdrawn too early to have any enduring and beneficial effect on given situations in the markets.

7.81 The present system of margins to regulate the behaviour of prices and check speculative excesses is also not satisfactory. It is applied in case of persons who wish to carry forward their transactions to the next settlement by settling the differences and paying *conrango* (*budla*) to the sellers. This system suffers from a number of inherent deficiencies and has loopholes. The carry over margins collected at the end of the settlement period is uniformly levied at 3 per cent for all the scrips. The rates of these margins can, however, be raised upto 15 per cent in case when there is too much of speculative activity. However, there are no objective criteria and uniform policy fixed for levying of additional carry over margins and each Stock Exchange pursues its own independent policy in this regard. As there is no co-ordination among the Stock Exchanges in this matter, most of the big operators and speculators are able to shift their activities frequently from one market to the other or balance their risks by operating simultaneously in different markets.

7.82 Again margins are paid by members only on the business reported to the Stock Exchanges. However, some of the business transacted by certain stockbrokers is not reported to the Stock Exchanges, as stated already. The system of adhoc and daily margins is also not entirely satisfactory as it based too much on the subjective evaluation of the financial position of the stockbrokers involved and of the market trends respectively. In actuality, daily margins are rarely imposed. Only recently this is being done. Hence, most of the times, speculators escape without having to pay any margins at all or by paying only 3 per cent margin which have practically no restraining effect on the speculative activity. It is stated that there is no proper machinery to check whether correct margins are paid by the stockbrokers according to market positions.

7.83 Thus, the present system of control and regulatory mechanism for keeping excessive speculation under check has not proved effective or adequate. Again, whatever regulatory measures are available have not been properly implemented either to nip the problems in the bud before they develop into crises or crises have not been dealt with firmly and effectively in time even when, in fact, they arise.

7.84 The Gorwala Committee had pointed out in 1951 that "the essence of the regulation of the Stock Exchanges is the control of speculation in the Stock Exchanges and the crux of the control of speculation is its confinement to the right sphere, the right persons and the right type and volume of business".

7.85 Looking to the developments which have taken place in trading in the shares on the Stock Exchanges, particularly since 1980, it can be stated that the Stock Exchange authorities have not been able to regulate the markets effectively containing speculation to the right sphere, right persons and to the right type and volume of business" as was the intention behind the recommendations of the said Committee.

7.86 Under the circumstances to deal effectively and take advance preventive action in time to ensure smooth functioning of the markets by completely stopping excessive build up of speculative activities in the markets and to forestall or diffuse crisis situations, it would be imperative to adopt a number of measures—both external and internal—to buttress the existing tools of regulation and control and to devise certain new and more effective measures. This would necessitate issue of suitable administrative guidelines and effecting suitable amendments to the Byelaws and Regulations of the Stock Exchanges.

## SECTION V : REMEDIAL MEASURES

With this end in view, the following measures are suggested :

### Trading for Settlement Business

7.87 We have mentioned that trading for settlement business, by whatever named called, is necessary for the purpose of ensuring liquidity and price continuity of securities on the Stock Exchanges. However, it has to be regulated properly to keep it to the right sphere and within bounds so that the stability of the markets is not jeopardised. Without prejudice to the generality of this observation, we believe that due to the imperfection and mal-functioning of the markets and wide spread existence of unhealthy practices therein the time is not yet opportune to allow trading for settlement business in all the scrips. Even otherwise this would not be practical or possible as most of the listed shares would not be directly suitable for trading for settlement business. Hence the ban on trading for clearing in general should continue and trading for settlement business in certain specified shares, which is permitted now, should be properly regulated and controlled.

### Criteria for inclusion of scrips in the specified section

7.88 The criteria which are fixed, at present, for inclusion of scrips in the list of specified shares should be closely scrutinised and tightened and should be common for all the Stock Exchanges. It is, at the same time, necessary that the list of specified shares should be under constant review to eliminate scrips which do not have sufficient volume of trading or where managements themselves tend to speculate or where other criteria fixed for inclusion of scrips in the said list are not met, etc. The said list should also be enlarged to include more scrips which become eligible for such trading. We are equally firm in our view that once we achieve uniformity in the Rules, Byelaws and Regulations, bring about appropriate changes in the organisational and management set up, pursue common policies and follow uniform practices and procedures

covering all aspects of trading in securities in all the Stock Exchanges with common tools of regulation and control, applicable everywhere, as we have recommended elsewhere in the Report, there is no necessity or justification for preventing any scrip being included in the specified group on more than one Stock Exchange as there will not thereafter be much difficulties experienced in regulating the operations in the securities industry on all India basis. In fact, we suggest that the proposed Council for Securities Industry should finalise a common list of such scrips and keep it under constant watch and review and frame suitable guidelines and procedures uniformly applicable to all the Stock Exchanges for trading in such scrips, to co-ordinate the actions of all the Stock Exchanges and to enforce measures of regulation and control more effectively. This will actually encourage intermarket arbitrage business by having the same shares listed on more than one Stock Exchange, paving the way for the establishment of a national securities market.

### **Disclosure by the Investors**

7.89 A person who wishes to transact business in shares must be under an obligation to inform the stockbroker concerned when he places orders for purchase or sale of shares whether he wants to take or give delivery of shares for cash or is interested only in trading for settlement business. If he wants to deal in shares for settlement business, he should inform the stockbroker accordingly at the time of entering into the contract. However, such a contract will have to be settled within a maximum period of 60 days and the purchaser can insist on the delivery of the shares subject to the Rules, Byelaws and Regulations of the Stock Exchanges. It is clarified that the Stock Exchanges in India which will function only on a cash basis need not have such a type of contract. This will facilitate smooth carry-over of outstanding positions which the stockbroker could easily arrange through budliwallas. Accordingly, the stockbrokers will have to issue two types of contracts—one for cash transactions and the other in respect of transactions for trading for settlement business, the contract notes issued being in two distinct and different colours and the nature of the contract will not be allowed to be changed during the settlement period. This would enable cash and speculative transactions to be clearly distinguished and identified, incidence of fictitious or benami purchases would be considerably reduced, genuine investors will know whether the right contracts are issued to them and the Stock Exchange authorities will be enabled, through a proper system of reporting to know the volume of transaction on cash basis or on settlement trading basis and take effective steps to deal with the same as the situation demands. Information about the different types and colours of contracts which a broker is bound to issue to suit the investors' preferences, should be widely publicised for the benefit of investors.

### **Front-end margins**

7.90 Anyone who wants to avail of the facilities offered by the Stock Exchanges for buying and selling of shares of listed companies, must have sufficient financial resources to back up his business commitments. In order to establish one's financial viability

and credibility, the investors, whether the transaction is on cash basis or settlement trading basis, shall pay front-end margins before the purchases or sales of equity shares are made in the market. A genuine investor making a purchase with a view to taking delivery of the shares should deposit 25 per cent of the ruling market price for the shares at the time of placing the order for purchase. An investor making a sale with a view to delivering the shares, should tender delivery of the shares within 7-10 days of placing the order for sale. If he fails to carry out the above requirements, suitable penalties specifically prescribed in the Bye-laws and Regulations shall be levied on him. For example, a client who flouts such requirements should be denied payment of any gains resulting from such transactions while any losses arising therefrom shall be recovered from him. On the other hand, when an individual wants to buy or sell shares for trading for settlement business he shall pay minimum 20 per cent of the market value of the shares as margin money at the time of placing the orders for purchase or sales. This can be stepped up further if the situation so warrants. We have separately recommended that the proposed Council for Securities Industry should be empowered to fix the margin in respect of purchases and sales of shares on the Stock Exchanges. Pending the formation of the Council for Securities Industry, we recommend that power to fix the margin on the purchases and sales of specified shares and the decision to retain or delete any share(s) from the specified list should be taken away from the existing Governing Body of the Stock Exchanges which are mainly formed of stockbroker directors and be vested solely in the Executive/Managing Directors of the Stock Exchanges. Such compulsory payment of margin money simultaneously with the placing of order with the stockbrokers shall be applicable with equal force both for purchase and sale transactions for settlement business. This will ensure caution on the part of investors and help, to a great extent, in curbing tendencies to trade beyond one's means. The margins paid by the investors, while giving orders for purchases or sales to a stockbroker, shall have to be kept in a separate bank account to the credit of each investor and such margin monies will not be permitted to be mixed up with general funds of the stockbroker. The margins so collected by the brokers from the investors shall be required to be deposited with the Stock Exchanges. Constant monitoring and follow-up action in the matter will be absolutely necessary.

### **Introduction of an Investor**

7.91 The investor must be properly introduced to the stockbroker who shall not transact business for a person who is not his client or who is not properly introduced. If a client wants to purchase or sell more than 1000 shares of Rs. 10 each or 100 shares of Rs. 100 each as carry forward transactions he must furnish a satisfactory introductory reference from a Scheduled Bank.

### **Defaulting clients**

7.92 No stockbroker, under pain of automatic suspension for transgression, should deal with any outside party which has failed to honour business commitments with any stockbroker of any Stock Exchange.

For this purpose, any stockbroker having a client who has failed to meet his market obligations shall have to report the name and details of the client to the Stock Exchange authorities. The names of such clients shall be blacklisted and placed on the notice boards of Stock Exchanges for the information of the other members and the general public.

### **Minimum Liquidity Margin**

7.93 It may be emphasised that in many of the Stock Exchanges in the country the stockbrokers conduct their operations primarily on behalf of their clients as agents. They also trade in the market on their own account and, in the process, most of them tend to over trade and enter into commitments beyond their financial means. The last few crises on some major Stock Exchanges serve as evidences to this factor of speculative excesses of the stockbrokers themselves. For the Stock Exchanges to function as efficient financial intermediaries, it is necessary that trading in securities should be as smooth as possible. The trading should certainly be free from excessive speculative activity in order that crisis situations are not permitted to develop at all, often leading to the closure of the markets to tide over the market vulnerability. Hence, it is imperative that no stockbroker should be allowed to trade beyond certain monetary limits related to his own resource base. There should be a statutory correlation between the input of resources and the overall volume of business in terms of money a stockbroker is allowed to take upon at a time. This cardinal principle is particularly applicable to stockbrokers who undertake more business in securities of a speculative nature. No criteria are fixed by the Stock Exchanges, at present, to judge the financial solvency and capacity of the stockbrokers to discharge the various types of obligations they undertake. The Committee, therefore, recommends the introduction of a system of liquidity margins on the lines of such schemes presently operating in foreign Stock Exchanges. This may be adapted with suitable modifications to suit our national requirements and genius whereby each stockbroker may be asked to maintain at all times sufficient financial stake in the business and his volume of activity in various fields, viz, business in securities, underwriting, etc. should be related to the owned resources at his disposal. A suitable scheme, on the basis of the broadlines indicated in Annexure 11 Volume II can be framed by the proposed Council for the Securities Industry.

### **Reporting of Transactions**

7.94 Apart from reporting the daily volume to the Stock Exchange authorities the stockbrokers should also be required to submit to the Stock Exchanges, a scrip-wise list of the names of the parties, individuals and groups, who have purchased or sold shares of the value of more than Rs. 1 lakh on a cash or a settlement basis.

### **Publication of the volume of business**

7.95 Moreover, all the Stock Exchanges should be required to publish, on a weekly basis, complete information in the newspapers about the volume of

business in specified shares and non-specified securities for the information of the general investing public. This is a must if the goings on the Stock Exchanges are to be made meaningful and objectively purposeful for the guidance of all concerned.

### **Separate contracts for trading for settlement business and genuine investment**

7.96 More and more genuine investors are holding industrial securities and showing keen interest for further investment therein. Such investors want to buy securities against money and sell securities to obtain prompt payment of sale proceeds of the shares they may have sold. With the tempo of industrial development picking up and with more and more entrepreneurs taking recourse to the Stock Exchanges for raising capital, the volume of new issues of capital coming to the market for public subscription, will go up considerably in the immediate future. Simultaneously, with the spread of investment consciousness and investor education, the number of investors holding industrial securities is also likely to increase substantially. It is to serve the interests of such growing number of investors and to provide them with liquidity, marketability and negotiability of the shareholding that the Stock Exchanges primarily exist. Of course, there are other types of investors who are short term operators in the markets. They may like to trade frequently in the markets by buying shares for settlement account with a view to selling them with a profit in the near future. They may also like to sell the shares for settlement account if they expect the prices to go down and buy back later and make a profit, keeping their sales position open till that happens and in the meanwhile they realise contango charges, for carrying over their sale positions. Even some of the long term investors may like to hedge their investments against depreciation when the prices rule high. If the Stock Exchanges are to serve the interest of both the groups of shareholders efficiently without jeopardising the overall stability of the markets it would be necessary to distinguish between contracts for settlement account and contracts for genuine investment. This calls for necessary amendments to the present Byelaws and Regulations for making specific provisions for delivery of shares. The provisions should be clear and unambiguous that ensure delivery and payment simultaneously. A genuine purchaser shall be delivered the shares against payment. Similarly, sale proceeds of the securities shall be paid to the seller once the shares he has sold are delivered to the stockbrokers in completion of his contract. At no time, any investor should be made to suffer in receiving delivery of documents against payment of sale proceeds of shares delivered by him.

### **Carry-over of transactions**

7.97 Even for those who would like to carry over transactions, in the case of specified shares, it should be stipulated in the Byelaws and Regulations that no single transaction should be permitted to be carried over for more than four times i.e. four settlements of 14 days' duration each. Members should settle such positions once in 60 days and a certified statement, to that effect, should be filed by the members with the Stock Exchange authorities. This is



necessary because the overall carry over period which is fixed at 90 days, at present, contributes a great deal to the speculative activity. Besides, it is observed that in practice even after the period of 90 days prescribed as outer limit, it is possible under the Byelaws and Regulations to carry over transactions even beyond that period. In case, any member files wrong or incomplete statements, he should be penalised severely by suspension for at least a month or expulsion for the breach for a second time.

7.98 It has also been reported to the Committee that speculators carry over the transactions even in cash scrips, though this is not permitted under the Byelaws and Regulations, whereby genuine investors are denied the deliveries of shares in due time. This is normally done by reversing the original contracts and re-entering into new contracts by paying the difference. The Byelaws should clearly provide that stockbrokers who carry over cash transactions through budlee shall be suspended/expelled/fined/censured.

7.99 It would be necessary to amend the provisions of the Byelaws and Regulations to ensure that a genuine investor who wants to take delivery of shares should not be made to pay more than the contracted rate of securities in case of closing out of contracts by the Stock Exchange authorities to obtain delivery of shares he has purchased. A client must be given the delivery of shares at the price at which he has purchased and if the stockbroker fails to do so, the shares should be bought by the Stock Exchange authorities and delivered to him and the difference in price should be recovered from the defaulting stockbroker. Similarly, his interests will have to be protected in any asset distribution of a defaulting member.

### Trading hours

7.100 At present, as much as 90 per cent of the volume of trading in the Stock Exchanges is of a speculative character. From this it is obvious that the attention of most stockbrokers is concentrated on the specified shares, both on their own account and on account of their clients. This generally leads to inadequate attention being paid to the execution of orders of genuine investors. Consequently there is a distinct deterioration in the services which stockbrokers are expected to render to them. It is, therefore, suggested that trading hours on the Stock Exchanges should be increased in stages, from the present 3 hours to 5 hours. The number of holidays declared by the Stock Exchanges should also be brought in line with the public holidays under the Negotiable Instrument Act. Moreover, suspension of business on account of settlement days and closure of the markets for the unfortunate deaths of members should be reduced. It is also suggested that the trading session should be divided into two parts—one for settlement business and the other for cash business. And, distinct procedures should be evolved for completion of transactions both for settlement business and cash to serve the needs of the investors and to service them properly. If the trading session is so segregated, most of the apathy shown towards genuine investors would

get reduced. The stockbrokers would then have adequate time to handle investment business with obligation to deliver the shares or make the payments within the prescribed periods in case of cash scrips.

### Outside Finance

7.101 As has been stated earlier, outside finance plays an important part in enabling some big stockbrokers and operators to carry over their transactions from one settlement to the next. Such Stockbrokers pay attractive rates of interest and provide sufficient security to outsiders to take delivery of shares from the markets. Such a procedure enables some stockbrokers to build up market positions out of all proportion to their financial capacity, thus escaping the discipline of the markets. The Stock Exchange authorities are generally helpless to prevent such practices as under the present Byelaws and Regulations, there is no prohibition on members from dealing with non-members or prevent any stockbroker from taking delivery of shares from the markets against payment. We recommend that the Byelaws and Regulations should provide that the Stock Exchange authorities can direct a member not to deal with any non-members without assigning any reason. Similarly, it is suggested that a member stockbroker should not be allowed to arrange for finance from outside by offering the shares under purchase with blank transfers as security, for speculative trading on his own account. He should be asked to submit a statement to the Stock Exchange authorities, at the end of each settlement period, how much moneys he has borrowed from outside and against what securities and at what rate of interest, to take deliveries from the market, as such borrowings would increase his financial vulnerability. Lifting of shares with outside finance is a cause of concern for the Stock Exchanges as it not only affects the availability of shares in the market on hand and therefore pushes up the prices but also at times leads to sudden dumping of shares and abrupt increase in the supply of shares when outside finance becomes prohibitive in cost or is not readily available. This also results in depressing the entire market pushing down prices. Outside finance, thus, definitely distorts the share price structure, leads often to unstable conditions and even creates crises in the Stock Exchanges. It is the view of the Committee that non-banking finance used for budla and carry over and such finance deployed for speculative purposes by non-member operators should either be brought within the purview of the Usurious Loans Act or the Money-lenders Act or regulated by the Reserve Bank of India as is done in the case of fixed deposits and operations of the chit funds and other non-banking financial companies. For this purpose, it may be prescribed that a return of large deliveries exceeding Rs. 5 lakhs, in market value, given or taken through the Clearing House or through the stockbrokers direct, with the names of the parties, taking or giving deliveries of shares, quantum of money involved, the rate of interest at which money is borrowed, the securities provided therefor, etc. should be filed by the stockbrokers with the Stock Exchange authorities, in duplicate, so that a copy thereof be filed by the Stock Exchanges, in turn, with the Reserve Bank of India.



## Option Trading

7.102 Option trading in shares is illegal in our country. Still it is carried on by some outside operators and some member stockbrokers. Depending upon their position in the option market the operators trade in the Stock Exchanges resulting in adverse effect on the share prices. The Stock Exchanges will have, therefore, to keep a strict vigil on these operations, particularly of their member stockbrokers, who help the outside operators, by executing the contracts for the purchase and sale of shares by optionwallas. It is alleged that the Stock Exchange authorities generally know the persons who indulge in option trading but they are unable to take effective action in the absence of documentary proof. While it is appreciated that there are genuine difficulties in preventing such activities, they must be stopped completely as they are illegal and possess dangerous potential for destabilising the markets. The Stock Exchange authorities must maintain a vigilance squad who can monitor and report to them on the activities of persons indulging in option trading for suitable penal action against them. The first pre-requisite is to ensure that the persons who indulge in such illegal activities are not allowed to enter the Stock Exchange premises during trading hours. It should also be brought home to the members and the persons who conduct option trading that it is a cognizable offence punishable with imprisonment upto 2 years. Again, the Stock Exchanges authorities must not permit their members to regularise the contracts arising out of such option trading. Such stockbrokers who aid and abet such trading should be subjected to severe disciplinary action, including suspension and expulsion. There is a school of thought which is of the opinion that option trading may be officially permitted in our country, as is done abroad. We are not in favour of this idea. We have yet to devise and perfect the techniques of regulation and control of speculation, which in fact, is encouraged by such option trading. We have also to develop genuine investment markets and have to make Stock Exchanges safe for the investors so as to retain their confidence. In the circumstances, we are of the opinion that the existing ban on option trading should continue.

## Kerb Trading

7.103 Just like option trading, kerb trading also adds to speculation and creates unrealistic share prices. The vigilance squad to be established to monitor and report the activities of persons who indulge in option trading can be entrusted with the responsibility of monitoring and reporting on the activities of persons indulging in kerb trading too. It must be emphasised that the Stock Exchange authorities should curb firmly these undesirable activities with an iron hand and take severe disciplinary action against the members and their authorised clerks who are found to indulge in such activities. We have considered the question of trading over telephone or in the offices of brokers after the trading hours. While such trading is legal at present and is officially reported to the Stock Exchanges, it is not desirable to continue the existing practice as it has an adverse influence on the process of price formation. It distorts to a great extent the

competitive character of the markets, particularly at the time of opening of the markets. We are of the opinion that this type of trading after the official trading hours should be prohibited. Members may, however, be permitted to collect orders in their respective offices as they keep pouring in round the clock. These orders must be executed only in the official trading sessions. It should be possible for the Stock Exchanges to detect any activities of kerb and option trading by collecting, apart from the reports of the vigilance squad, necessary information from the Markets and have the said information cross checked with the transactions among the members for detecting possible discrepancies resulting from incomplete reporting. All the same, such undesirable and clandestine dealings can be dealt with effectively only if a majority of the stockbrokers who do not approve of such activities on the part of some of their colleagues, themselves ostracise and expose the stockbrokers involved. The stockbrokers themselves should observe self-discipline, business ethics and integrity in their dealings and become conscious of their own responsibility to the Stock Exchanges and the investing public, as emphasised repeatedly elsewhere in this Report.

## Closing Quotations

7.104 Closing quotations of securities on the Stock Exchanges are taken as genuine quotations in good faith by investors and form the basis for valuation of securities for the bankers and other creditors, to determine margins on securities by the Stock Exchange authorities, etc. The tax authorities also use such quotations for determining the realisable value of securities for realisation of taxes. Closing prices are quoted daily in a number of newspapers. Most of the investors note such closing prices of the shares which they hold and also make investment decisions based on such prices. One of the most serious and objectionable abuses prevailing in most of the Stock Exchanges is the reprehensible practice of manipulation of the closing quotations of the securities on the Stock Exchanges. Such a malpractice not only misguides the investors, but also helps the operators who indulge in option trading and also carry on business in the kerb. Such a practice amounts to any share quotations being "fixed". This is done by getting the transaction done recorded as the closing quotation. It is the duty of the floor governor or the persons who are entrusted by the Stock Exchanges with the responsibility of watching the price trends to record correct quotations and justify the trust and confidence reposed in them. It is also suggested that no closing quotation of any scrip should be recorded officially if it is put in the last 15 minutes unless it is for more than 250 shares of Rs. 10 each or 25 shares of Rs. 100 each.

## Spread in two-way quotations

7.105 There are no particular prescriptions relating to the two-way quotations given by the jobbers in this country. It is true that in some volatile scrips the spread between the two-way quotations is reasonable but this is not so in all cases. Quite often the spread is as wide as 10 per cent of the price or even more.

which acts to the detriment of genuine investors. We are of the opinion that the spread between the two-way quotations should always be within reasonable limits and the same can be prescribed by the proposed Council for Securities Industry.

### **Punishment for undesirable activities**

7.106 In most of the foreign countries where Stock Exchanges are functioning, the following undesirable activities are treated as civil and criminal offences punishable with heavy fines and imprisonment upto 5 years. These are as under : (i) Stock Exchange manipulation; (ii) false trading; (iii) market rigging; (iv) spreading of false rumours and making misleading statements to induce purchase or sale of securities by other persons or to raise or lower or maintain the prices of existing securities; (v) making or publishing any false or misleading statements or promises or forecasts knowing them to be so; (vi) concealing material facts to induce other persons to deal in securities with fraudulent intention; (vii) insider trading, etc. Such unhealthy practices play a vital part in accelerating speculative excesses on the Stock Exchanges in our country also. We should, therefore, have similar statutory provisions to protect the public interest. Hence, to deter the persons who indulge in such practices, Stock Exchange authorities should be empowered, by law, to take disciplinary action themselves and also to file civil and criminal proceedings against the offenders so that they do not go unpunished. In foreign countries, investors are more knowledgeable and well informed and are capable of taking care of their interests on their own. The Stock Exchanges also are better organised equipped and conscious of their own responsibilities and act as watchdogs to protect the interests of investors. Even so, it has been considered necessary to treat such unhealthy practices as civil and criminal offences. It is all the more necessary to do so in our country to prevent chances of defrauding and misleading investors, majority of whom are yet, comparatively speaking, not so knowledgeable in the art and practice of investment and the Stock Exchanges are not as alert as they ought to be. We therefore, recommend that the Securities Contracts (Regulation) Act may be suitably amended by incorporating provisions to make such activities including kerb trading, as civil and criminal offences and to enable the concerned authorities to suspend/expel/warn off persons who indulge in them, levy heavy fines on them and even get them imprisoned upto a period of 5 years. The persons concerned should also be compelled by law to surrender the profits they have made or the amounts equivalent to the losses they have averted, to the Stock Exchange authorities.

### **Disclosure of information by companies**

7.107 One of the factors which contributes to excessive speculation in the Stock Exchanges is the lack of prompt disclosure of corporate news by the companies whose shares are listed with the Stock Exchanges. Apart from the annual reports and the Chairman's statement to the shareholders, most of the companies do not circulate or provide any worthwhile

information on the corporate performance to the investors. As the date of announcement of the annual results approaches, rumours start floating in the markets about the working results of the company, the quantum of dividends or the possibilities of bonus or right or convertible bond issues by the companies. Such rumours lead to speculative activity in the shares of the companies concerned. We have, in the Chapter on "The Listing of Securities", recommended that all the listed companies should publish their unaudited working results at least on a half yearly basis and on a quarterly basis if their paid up capital is Rs. 10 crores or more. The Stock Exchanges should also be immediately informed about any news or developments affecting the companies, which may be price sensitive in nature as soon as such matters are placed on the agenda of the board meetings and circulated to other directors. Such matters should not be introduced off the agenda for consideration at the board meetings. We have suggested that if any company fails to comply with the provisions of listing agreements entered into with the Stock Exchanges, the persons in charge of the management of the company should be penalised. There should be statutory responsibility for the purpose fixed on the companies under the Companies Act, 1956 and the Securities Contracts (Regulation) Act.

### **Insider Trading**

7.108 We have indicated earlier that there is no legislation in the country to prohibit insider trading which enables circles close to the companies, to take advantage of the price sensitive information which they come to know (on account of their close association with the companies or with the persons who are in key positions in the companies or entrusted with official duties and who have, therefore, access to price sensitive corporate information) and to make quick profits on the Stock Exchanges by trading in the shares of the companies concerned. The Sachar Committee had examined this question of regulation of insider trading in 1978 and had made certain recommendations to the Government in the matter. After examining the said recommendations and latest legislation on the subject in some of the countries abroad, which appears to us to be more precise and relevant for the purpose, we recommend that suitable provisions may be incorporated by way of amendments to the Securities Contracts (Regulation) Act on the lines of the Australian legislation on the subject. A draft of such legislation is reproduced in the Annexure 12 Vol. II. It can be suitably modified to take care of some of the important provisions of the Company Securities (Insider Dealing) Act 1985 of the U.K.

### **Trading in securities before listing**

7.109 We have discussed the subject of trading in the shares of new companies before they are listed, in the earlier Chapter on 'The Stock Exchanges and the Financial System'. Such trading can also be minimised, if the time involved between the offer of shares to the public and in granting permission for listing is reduced. It would still be better to grant provisional listing to the shares so that official

trading can start therein. It should be examined whether trading in the securities can be permitted from the date of issue of prospectus, with pueca contracts, etc. being exchanged between the buyer and the seller through a stockbroker. We further suggest that the Bye-laws should be amended to permit such trading with suitable regulations. These regulations shall be applicable to all the persons including those in-charge of the management of the company and merchant bankers/managers to the issue, members of Stock Exchanges and the investing public.

### System of Margins

7.110 Among other factors, present techniques of regulation and control used by the Stock Exchange authorities have largely failed to achieve their objective of controlling excessive speculation and in ensuring orderly and smooth functioning of the Stock Exchanges. The present system of margins is too lenient and has failed to achieve its objectives leading to speculation for the reasons stated earlier. Under the circumstances, to make the system of margins really effective and to regulate and control the speculative excesses, such margins should be uniformly applicable in all the Stock Exchanges in respect of the specified shares, and there should be objectivity in their implementation and effectiveness in achieving their purpose. We have, therefore, suggested introduction of a new system for the levy of front-end margins which is prevalent in most of the countries abroad and which has proved very effective in ensuring smooth functioning of the Stock Exchanges and in maintaining the market equilibrium. To strengthen the effectiveness of the system of margins, already recommended by us, we further recommend that in case the transactions are carried over to the next settlement, the carry over margin should be levied uniformly at the rate of 10 per cent and in cases of unusual price rise of 5 per cent and above in a particular scrip during a settlement period, and by more than 10 per cent as compared to the previous making up price of the settlement preceding the current one, the same should be stepped up to 20 per cent. The aforesaid margins may be stepped up further when circumstances so warrant. The Stock Exchange authorities should also collect such margins in cash and should not accept any shares under purchase with blank transfer forms as a security as the very purpose of curtailing speculative activity would otherwise be defeated. Such regulations are necessary to ensure that the person who wants to speculate on the Stock Exchanges, must be made to have a reasonable stake in the operations. The present system does not provide proper checks in this regard and this impairs the stability and health of the markets. We have separately recommended that the proposed Council for Securities Industry should be empowered to fix the margin in respect of purchase and sales of shares on the Stock Exchanges. Pending the formation of the Council for Securities Industry, we recommend that power to fix the margin on the purchases and sales of specified shares and the decision to retain or delete any share(s) from the specified list should

be taken away from the existing Governing Body of the Stock Exchanges which are mainly formed of stockbroker directors and be vested solely in the Executive/Managing Directors of the Stock Exchanges.

### Operation of margins for reasonable periods

7.111 All margins collected from the members should be retained by the Stock Exchange till the time the actual outstanding transactions for which the margins have been paid get settled or alternatively the technical position of the market becomes stable, with the discretion being vested with the Managing Directors of the Stock Exchanges. In all cases of margins, the quantum of margins should be related to the overall outstanding position of the members in the market. In other words, the system of margins should be so devised that at all times the margins retained by the Stock Exchanges are directly proportionate to the outstanding positions in the market of the members concerned. Moreover, the margins imposed should continue to be in operation for a reasonable duration so that their impact is not allowed to be whittled down leading to fresh bouts of speculative activity. Even the process of withdrawal of margins should be done in a phased manner and co-ordinated properly among the different concerned Stock Exchanges.

### Stock Exchange Authorities and powers

7.112 It is recognised that duly controlled and regulated trading for settlement is essential for ensuring continuity in price formation, greater degree of liquidity, frequency of trading and for pepping up the investors' psychology of expectations. However, excessive speculation and other undesirable trading practices have to be curbed effectively so that the Stock Exchanges function on healthy lines, maintain the confidence and trust reposed in them by the investors and uphold their traditions, prestige and image in the eyes of the public. It is the primary duty of the Governing Bodies of the Stock Exchanges to formulate and implement proper policies and enforce firmly and faithfully the Rules, Bye-laws and Regulations for the effective functioning of the Stock Exchanges and making them safe for investors. We have, therefore, in the Chapter on 'Organisation and Management' highlighted the urgent need to revamp and reorganise the Governing Bodies by changing their constitution and composition of members. We have suggested that the preponderant influence of stockbrokers on their functioning should be minimised to bring about a much needed objectivity, fair and impartial outlook and approach and professionalism to bear on the solution of the complex problems faced by the Stock Exchanges. In addition, we recommend the following measures to remove some of the difficulties encountered by the Stock Exchange authorities in the discharge of their functions :

- (i) The reporting system of the Stock Exchanges should be perfected and made fool-proof. The Bye-Laws and Regulations of the Stock Exchanges should, therefore, be suitably amended to make it statutorily

obligatory on the part of the stockbrokers to submit complete information and report all their transactions in securities, involving financial commitments on their part, as may be required by the Stock Exchange authorities, in their absolute discretion. Without prejudice to the generality of the above provision, the Stock Exchange authorities should be particularly empowered to ask stockbrokers any time to make full disclosure of :

- (a) Business distributed among other stockbrokers together with the names of the brokers concerned ;
- (b) Business dealings with outside operators in the market, including contracts issued by them ;
- (c) Business done on behalf of their clients and on their own account separately in respect of cash and settlement transactions ;
- (d) Margins collected from their clients ;
- (e) Transactions in unlisted securities and the names and addresses of the parties with whom such transactions are entered into ;
- (f) Contracts involving sale or purchase of shares of the market value of Rs. 50,000 or more, settled during the same settlement period ;
- (g) In the case of members indulging in option and kerb trading, the Stock Exchange authorities should be empowered to search their offices, books of accounts and call for whatever information is deemed necessary. etc.

Apart from this, the Stock Exchange authorities should also have general powers of search and seizure of documents, books of accounts, etc. Again they should be clothed with sufficient authority to ask for reports on the activities of any authorised clerks or taravaniwallas and to take disciplinary actions against them, if needed. We have already recommended amendments to the Rules, Bye-laws and Regulations of the Stock Exchanges to enable them to prevent any member for dealing with any non-member whenever required.

(ii) The Stock Exchange authorities should, moreover, be empowered by suitable amendments to the Bye-laws and Regulations to direct their members to maintain such books of accounts and other documents and preserve them for such periods, subject to a minimum of 8 years, preceding the current financial year as they may, in their discretion, stipulate. They should be empowered to introduce compulsory audit of the books of accounts and other documents of all the members in such form and manner as they may decide and also to conduct on the spot or surprise audit as often as they wish. We have dealt with this matter in the Chapter on "Membership" and have recommended establishment of an audit cell in each of the Stock Exchanges and

the creation of a panel of outside auditors who may be entrusted with the task of conducting surprise audit or special audit of the books of accounts and other documents of the members when directed by the Stock Exchange authorities. Such audit should bring out whether business of the stockbroker is distributed among other stockbrokers, whether there are financial irregularities or improprieties, whether the stockbroker does the business beyond his means and resources, whether he has indulged in option or kerb trading, etc.

(iii) We have already recommended registration of the sub-brokers with the Stock Exchanges in the Chapter on "Membership" with a view to bringing them within the discipline of the Stock Exchanges. Similarly, we have recommended penal measures for the persons in-charge of the management of listed companies who do not comply with the listing requirements of the Stock Exchanges in the Chapter on "The Listing of Securities".

(iv) The Governing Bodies should have a well organised secretariat and research and statistical division, consisting of competent persons, conversant with latest corporate data analysis and techniques of investment and qualified to collect and interpret necessary data to enable the Governing Bodies to judge the trends in trading sentiments on the floors of the markets ; to monitor trading activities of the brokers ; to ensure prompt settlement of contracts on due dates ; to watch stockbrokers' inter-market and arbitrage operations ; to carry out inspection to find out whether members overtrade or indulge in kerb or option trading etc., with a view to enabling the Stock Exchange authorities to take appropriate action, promptly.

#### **Common form of Organisational Structure**

7.113 We have suggested certain structural changes in the organisation of the Stock Exchanges such as a common form of organisation for the Stock Exchanges entirely under the Securities Contracts (Regulation) Act and till then as companies limited by guarantee, establishment of a Council for Securities Industry, etc. to ensure considerable degree of uniformity, co-ordination and integration in the functioning of the Stock Exchanges.

#### **Co-ordination, Integration and Pursuit of Common Policies among the Stock Exchanges**

7.114 Speculative activity is encouraged because there is no co-ordination and pursuit of common policies among the Stock Exchanges in India. Hence, the operators are in a position to build up their speculative positions in different markets, avoid margins which are not uniformly levied at the same point of time at all the Stock Exchanges and even take advantage of differences in the settlement dates and periods, variation in prices of different Stock Exchanges, etc. We, therefore, emphasise, as we had earlier done in the Chapter on "Membership", the need for the pursuit of common policies, procedures and practices in all the Stock Exchanges in the matters of integration of all the Stock Exchanges at the

national level, dissemination of information about daily volume of business, display of prices of securities quoted on all Stock Exchanges, common dates for settlements of transactions, closure of transfer books and marking of securities cum right|bonus|dividend or ex-right|bonus|dividend as far as possible on a standard basis, fixation of uniform rates of margins, common trading procedures and practices for delivery and payment of shares, regulation of inter-market transactions, kerb and option trading, trading hours on the major Stock Exchanges, etc. In addition to the aforesaid, we have also suggested installation of computers and micro-processors and recommended improvement in other infrastructural facilities for the Stock Exchanges and easy transfer formalities in case of transfer of shares.

7.115 We believe that the improvement in the organisational structure and management, trading practices and procedures and infrastructural facilities on the lines suggested by us would also go a long way to enable the Stock Exchange authorities to ensure smooth functioning of the Stock Exchanges and enable them to handle more effectively the larger volume of business in securities envisaged in the next decade and thereafter.

#### **Quantitative and qualitative improvements in the membership**

7.116 It has to be emphasised here that while strengthening and reinforcing the Rules, Bye-Laws and Regulations may succeed upto a point in bringing about some order and discipline in the functioning of the Stock Exchanges, the degree of success in achieving the desired results in maintaining the health of the Stock Exchanges and their smooth functioning will ultimately depend on the observance of business ethics and self-discipline by the stockbrokers, their awareness of their own social responsibility and their commitment and involvement in upholding the healthy traditions, honour and integrity of the Stock Exchanges. We have, therefore, suggested measures to bring about qualitative and quantitative improvements in the membership of the Stock Exchanges through increase in the number of members and through up-grading of their technical skills and knowledge and bringing about the desired changes in their mental outlook and approach, by laying down proper standards of education, training and experience and by suggesting formulation of a code of conduct for them. These measures would enable them to inculcate a better sense of discipline, work habits and ethical behaviour and to step up their productivity enabling them to render better service to the investors and improving their outlook and awareness of their social responsibilities. We feel that, if we succeed in achieving our objective in this vital area of the functioning of the Stock Exchanges, the Stock Exchange authorities would not only be able to moderate and control speculative activities on the Stock Exchanges to a great extent but will also succeed in resolving most of the problems faced by the Stock Exchanges, including the growing volume of business.

#### **Augmentation of supply of equity shares**

7.117 The evils of excessive speculation cannot however be curbed effectively so long as the markets continue to remain narrow and institutional shareholdings continue to grow over a period of time. It is only when shareholdings of investors who are keen to either sell or purchase shares purely from the investment angle remain substantially large and the public investment institutions like Life Insurance Corporation of India and General Insurance Corporation of India and its subsidiaries find themselves free to operate in the markets that the speculative activity can be controlled properly. Therefore, the supply of floating stocks of equity needs to be increased for curbing speculative activity.

7.118 It may, however, be noted that it is the supply of good equities that has to be increased and not just of any equity which may not inspire confidence among the general class of investors. It has been observed that well managed companies with good track record are generally not quite keen to augment supply of their equities and would prefer to depend as much as possible, on loan funds.

7.119 We have recommended in the Chapter on "The Listing of Securities" suitable changes to encourage closely-held companies with reassuring track record to augment their equity capital rather than relying increasingly on loan capital. We are glad that the Government have decided to do the needful in the matter.

7.120 While it is welcome that debentures have become very active on the markets lately, it needs to be emphasized that the supply of equity should also grow commensurately so that the financing pattern of companies does not get unduly tilted in favour of loan capital. The Corporate sector, apart from depending upon debenture capital, also relies on working capital loans from banks and term loans from the term financial institutions. For ensuring a healthy balance between equity and loan funds, the capital market should mobilise resources in such a way, that atleast 50 per cent of the total funds raised from the market should be in the form of fresh equity. However, this needs to be achieved not by curbing debenture issues but by encouraging well managed companies that have a good standing to raise more of equity from the markets.

7.121 As an additional measure for increasing the size of floating stock, it would be desirable to persuade the development financial institutions like Industrial Development Bank of India, Industrial Credit and Investment Corporation of India, Industrial Finance Corporation of India, State Financial Corporations to unload their holdings in favour of individual shareholders by emerging gradually as net sellers of equity. This approach would be consistent with their functions. It is not their function to hold on to the shares which they come to possess by virtue of their underwriting obligations or as a result of conversion of their loans or bonus|right shares.

7.122 Since the Unit Trust of India was created especially to invest in industrial securities, there is a strong justification why Unit Trust of India should continue to remain as a net buyer in the markets. There is, however, no such justification, why institutions like Life Insurance Corporation and General Insurance Corporation of India and its subsidiaries should hold on to the equities and not pursue an active investment policy and also resort to selling them off and on to investors who purchase them purely from investment angle and therefore help in augmenting the size of floating stock.

7.123 There is yet another angle to the institutional purchases and sales of shares and the speculative activity in the markets. The Life Insurance Corporation of India, General Insurance Corporation of India and its subsidiaries and Unit Trust of India are constant buyers of equity from the markets. In the absence of coordination among these institutions in the matter of purchases and sales of shares in the markets, whenever Development Institutions sell their shares, through the brokers, these brokers normally go to the Investment Institutions and sell the shares directly to them, if they are interested in them, while selling only those shares in the markets which they cannot sell to the Institutions. The result is that the fear of destabilisation of the markets through large sales of shares which is generally said to be the reason behind the reluctance of the Development Institutions not to sell shares in large quantity is not always justified particularly in case of good equity issues of existing companies. Apart from this, for the reason stated above, these shares are actually sold back indirectly to the Investment Institutions. Hence the floating stocks of the equity shares in the market is not augmented in case of shares which are absorbed by the Investment Institutions. Same is the case when the Unit Trust of India sells shares in the markets and these shares are absorbed by the Life Insurance Corporation of India or the General Insurance Corporation of India and its subsidiaries. Moreover, as stated earlier, selling operations of the Institutions in case of good equity issues do not generally depress the markets and even if they do, the effects are only psychological and temporary. However, the speculators invariably tend to take undue advantage of such selling of shares by the Institutions. They often raise undue alarm and manage to spread rumours both on the floor of the Exchanges and also through the columns of newspapers of large Institutional sales even in case of shares which they may not have sold and more often give the wrong information about the quantity sold. This creates psychological scare among weak holders of shares. As the prices tend to go down in face of sales by such investors and there is absence of buying enquiries due to uncertainties, knowledgeable operators try to depress the prices further by pressing their own sales in the scrips sold by the Institutions and also other scrips, on a forward basis, thus destabilising the markets, quite often. Even if such speculators have to take temporary deliveries of such shares, they are capable of arranging outside finance for taking them. They then nurse the shares purchased for some time without getting the same transferred out in their names and, more often than not, offload them

to the Institutions themselves at an opportune time later. Thus the effect of institutional sales do not always result in augmentation of supply of securities in the market. At the same time, such sales for the above reasons, tend to accentuate speculative tendencies in the market, benefiting speculators in the process.

7.124 In the light of these factors, it is suggested that the Institutions should establish a suitable machinery for consultation and co-ordination of their activities for sales and purchases of shares through common forums like Inter Institutional Meetings and Senior Executives Meetings and wherever possible, managed to offset their sales and purchases from each other at market prices. The State Financial Corporations and the State Industrial Development Corporations can also be invited to participate in such forums in case they have also to sell good scrips. Such an approach will be beneficial to them from the point of view of reasonableness of the prices and savings on brokerage. All of them are now public financial Institutions and they do not have to compete among themselves for business. As their functions are different, there is no question of secrecy of operations. On the contrary, each Institution will benefit additionally from the pool of expertise available when they discuss such matters in their common forums. Yet another effect would be that the speculators would not be able to indulge in speculative excesses. If they do so, they could be chastened by institutional sales in a co-ordinated manner.

7.125 Coming back to the question of sale of shares by the Development Institutions, which they hold in large blocks, it is suggested that when they propose to sell such shares they should make a public offer at suitable prices in favour of genuine investors. Institutions may however, adopt a policy of not selling more than a given number of shares to any single individual or persons or group of persons so as to avoid concentration of holdings in a few hands and the consequent implications to existing managements.

7.126 One of the reasons dissuading institutions like General Insurance Corporation of India and its subsidiaries (which account for a substantial part of the total institutional holdings) from disinvesting even those equities that ensure sizeable capital gains is reported to be the substantial burden by way of capital gains tax they would have to bear in the event of such sales. Since these Institutions are wholly Government owned and dividends are paid by them only to the Government who owns their equity capital, there is no apparent justification for the capital gains realised by them through the sale of shares being subjected to taxes in the same way as the capital gains earned by others. There is, therefore, a strong case for exempting the gains earned by institutions like General Insurance Corporation of India and its subsidiaries from taxes so as to encourage them to enter capital markets as active investors, interested both in buying and selling of securities and thereby ensuring that their holdings, in effect, form part of the freely floating stocks which can be used frequently to augment supply of equities in the markets. It is also recommended that as Life Insurance Corporation does



not suffer from this handicap, it should pursue a more active investment policy of buying and selling of securities.

7.127 The supply of equity shares in the markets can also be augmented through a review of the stipulation of debt equity ratio in project financing by the Development Institutions. In the light of the overall scarcity of available financial resources to meet the needs of the planned development of the country, the private sector is rightly exhorted now-a-days, to raise their own resources from the household sector. However, for the reasons stated earlier, the entrepreneurs prefer to raise public deposits or debentures from the markets rather than issue equity capital. In the changed context, it is suggested that the Development Institutions have a second look at the stipulation of the debt-equity ratio in case of their financing the projects promoted by the existing as well as the new companies and insist on the promoters to come out with more equity issues rather than taking more loans from them. They should also leave larger gaps in underwriting arrangements of such issues as far as possible and reduce their own underwriting commitments so that the entrepreneurs take pains to sell their issues widely among the investing public. The Development Institutions can, if they so desire, enter into standby arrangements with the entrepreneurs to fill up the gaps which are left uncovered by public subscription and by the entrepreneurs themselves if the issue meets with insufficient response from the public. They normally have such arrangements, at present, in any case.

7.128 We have also suggested in the Chapter on "The Listing of Securities" other measures such as forcing the entrepreneurs who corner the shares from the markets after the public issue of their equity capital is over, to offload a part of their shareholding to enjoy the benefit of listing and measures to encourage existing closely held companies to offer their equity shares to the general public. As stated earlier, the Government has already taken necessary steps in the matter.

7.129 The Government has also announced the introduction of a new investment instrument viz. convertible cumulative preference shares. Besides, new additional medium term financial instruments will have to be devised to suit the preferences of investors.

7.130 Such measures, together with implementation of our aforementioned suggestions could go a long way in augmenting the supply of equity shares in the markets, broaden investment enquiries from genuine investors and make markets more investment oriented and safe for genuine investors by moderating the speculative excesses which are indulged in by a handful of persons on account of the extreme narrowness of the equity markets. As time passes new types of securities shall have to be created to cater to the needs of the investors.

### Capital Gains Tax

7.131 One of the factors contributing to the narrowness of the market is the levy of capital gains tax on profits realised from the sale of industrial securities by

investors. As the law stands at present, capital gains from the sale of securities are free from tax if the securities are held for a minimum period of three years and sold thereafter, provided the sale proceeds or part thereof are invested in Units and kept invested for a further period of three years; otherwise, they are free from tax only upto Rs. 5,000 with a portion of the gains above this level being also exempt from tax. Hence the investors normally hold on to the securities for a period of three years and even for a longer period, if they do not want to invest in units of the Capital Gains Unit Scheme (1983) or National Rural Development Bonds. Thus, the payment of tax on capital gains which may be booked by the investors on the sale of shares acts as a deterrent to the increased supply of equity shares on the markets. In the view of the Committee, the present provisions of the capital gains tax should be amended to exempt from payment of tax, capital gains made from the sale of industrial securities, if they are reinvested within a period of one year, in any securities listed on the Stock Exchanges. This will be more or less on the analogy of the treatment given to the capital gains arising out of sale of house property. The minimum period of holding of a security presently prescribed as three years should also be reduced to a period of one year for purpose of counting long term capital gains in case of industrial securities.

### Bonus Guidelines

7.132 Bonus guidelines issued by the Controller of Capital Issues prescribe that there should be an interval of at least 3 years between any two bonus issues and not more than two bonus issues could be made within a period of 5 years. This results in companies declaring issue of bonus shares once in a few years, even though they may have good reserves. This also leads to excessive build up of speculative activity in the particular shares in the markets whenever the financial position of the companies concerned indicates accumulation of substantially high levels of free reserves. In the view of the Committee, it would be advisable for the Controller of Capital Issues to relax the bonus guidelines to permit companies to come out with bonus issues at appropriate times in smaller quantities, whenever their free reserves allow them to do so, with the objective that the impact of bonus issues as well as their timing do not accentuate speculative activity in the markets in respect of their shares. Incidentally, the supply of equity shares of good companies would also be augmented considerably and better tone will prevail in the markets.

### Turnover Levy

7.133 As one of the additional measures to curb excessive speculative activity and to enable the Stock Exchanges to augment the financial resources, which may be required to implement a number of suggestions made by us in our Report, we recommend that turnover levy should be levied by the Stock Exchange authorities on the volume of transactions effected by the stockbrokers on a gross basis. We also suggest that the rate at which such a levy should be imposed should be fixed at 0.05 per cent on the gross aggregate value of the annual turnover of every stockbroker.



## CHAPTER-8

### TO EXAMINE THE EXISTING PROCEDURES AND DOCUMENTATION WITH A VIEW TO SIMPLIFICATION AND MINIMISING DELAYS RELATING TO STOCK TRANSACTIONS

8.1 The volume of trading on the Stock Exchanges has multiplied manifold since 1960s & 1970s. There is no corresponding increase in the number of the stockbrokers or any noticeable change in the methods of working since then. On the other hand, Stock Exchange operations have become highly complex today. The procedures involved in documentation relating to purchase and sale of securities both in the offices of the stockbrokers and the Stock Exchange are also too complicated and have led to too much of manual book-keeping and paper work acting as a damper to the expansion of business. In fact, the limited number of members of the Stock Exchanges are pre-occupied most of the time so much with a lot of paper work that not much of time is left for them for the follow up of delivery and payments. This situation has often led to transactions getting accumulated, remaining outstanding and pending for a long time with the result that smooth settlement of transactions is affected, there is a marked deterioration in the services rendered by the stockbrokers and a disinclination on their part to accept new clientele.

8.2 It is reported that for a typical request from a client the stockbroker has to carry out, sometimes, as many as 27 distinct operations connected with book-keeping. Hence, the period involved between the time an order is placed by an investor for the purchase of a security and the time when it is actually transferred into his name and in the like manner between the time an order is placed by an investor for the sale of a security and the time of realisation of the sale proceeds by him has become so long that the Stock Exchanges securities have ceased to be as liquid as is generally considered by the investing public and as they ought to be. Such factors have also detracted an otherwise willing investor from investing in industrial securities. There is, therefore, an imperative need to simplify the procedures, streamline the operations, avoid duplication of documents and records and minimise the delays of the wider objective of augmenting the flow of funds into industrial securities is to be achieved. This is all the more necessary as the number of listed companies, the number of investors and the volume of business are expected to multiply manifold in the next decade.

8.3 Many investors even in urban areas, not to speak of rural areas, are unaware of the mechanics of trading on the Stock Exchanges. They just place the orders with the stockbrokers without any clear-cut instructions which gives full latitude for the latter to take undue advantage of the innocence of these investors to their detriment, if they so wish. Orders

can be of different types like (i) fixed price order, i.e., purchase or sale of securities at a fixed price, (ii) limit order, i.e., the maximum or minimum price beyond which the stockbroker cannot buy or sell, (iii) at best or at the market order, i.e. an order which does not specify any price and has to be executed immediately at the best price prevalent at the time, (iv) an immediate or cancel order, i.e., an order which has to be executed at once at the specified price and if the stockbroker is unable to execute it because of unfavourable prices, he has to cancel the same and inform the client accordingly, (v) discretionary order i.e., an order in which the stockbroker is given full freedom to buy or sell at whatever price he thinks reasonable, and (vi) open order, i.e., an order in which the client places no limit on the time during which the order has to be executed. If an investor is aware of all these he would choose the best type of order depending upon his own needs and the relationship he has with his stockbroker. The Committee is, therefore, of the opinion that Stock Exchanges should publish pamphlets or hand-outs not merely explaining in an easily understandable manner the mechanics of trading but also the types of orders a client can place so that the interests of the clients are fully protected.

#### SECTION I : MAINTENANCE OF DOCUMENTS

8.4 Under Rule 15 of the Securities Contracts (Regulation) Rules, 1957 a stockbroker has to maintain and preserve the following books of account and documents for a period of five years :

- (a) Register of transactions (Sauda Book) ;
- (b) Clients' ledger ;
- (c) General Ledger ;
- (d) Journals ;
- (e) Cash Book ;
- (f) Bank Pass-book; and
- (g) Documents Register showing full particulars of shares and securities received and delivered.

8.5 He has also to maintain and preserve the following documents for a period of two years :

- (a) Member's contract book showing details of all contracts entered into by him with other members of the same Exchange or counter

foils or duplicates of memos or confirmations or duplicates of memos or confirmations issued to such other members.

- (b) Counter-foils or duplicates of contract notes issued to clients.
- (c) Written consent of clients in respect of contracts entered into as principals.

## SECTION II : AUDIT OF ACCOUNTS OF STOCKBROKERS

8.6 By a letter dated the 31st May, 1984, the Government has directed all the Stock Exchanges that the accounts of "active" members of Stock Exchanges, an "active" member being one who has done business in securities even for a single day, be audited by qualified chartered accountants for every accounting year beginning after 31st March, 1984. The audit which would cover books of accounts and other documents specified in Rule 15 of the Securities Contracts (Regulation) Rules should be maintained in such a manner that the following information, also is readily available :

- (a) Settlement of transactions in specified shares|securities (with clients and stockbrokers on each settlement).
- (b) Transactions in non-specified shares|securities scrip-wise
- (c) Shares|securities received from the Clearing House and delivered to the Clearing House; and
- (d) Shares|securities from customers for sale and those delivered to the customers after the purchase.

8.7 It has, however, been clarified that it would be considered sufficient compliance with the above requirements, if one or more of the above records are maintained in a composite form provided they give the required information in a ready and clear manner.

8.8 The Government has further directed that the members of the Stock Exchanges may also at their option keep the following books:

- (a) Petty cash book;
- (b) Order book;
- (c) Register of shares|securities sent for transfer;
- (d) Register showing transfer of shares rejected by the company; and
- (e) Contract and transfer stamps register.

## SECTION III : PRACTICE FOLLOWED BY STOCKBROKERS

8.9 The practice followed by most of the members of the Bombay Stock Exchange is that whenever an order is received, it is entered in the order book. These orders are mostly executed in the trading ring either by the member or by his authorised clerk. While doing so, an entry to that effect is expected to be made instantly in the sauda book issued by the Stock Exchange. From the sauda book, entries relating to "specified group" of shares, "non-specified" group of securities and odd lots and preference shares are made in three separate books. Entries in the books give details about the securities bought and sold, the rates at which the transactions have taken place and the names of opposite parties. Although the form contains a column for the clients' code number, the same is not being filled at present. The original sheets of all the three books are sent to the Stock Exchange on the day of the transaction itself. Thereafter contract notes are prepared and sent to the respective clients. Generally a stockbrokers contract note is issued in Form 'A' (a copy of which is given in Annexure 13 Volume II) when a stockbroker act as an agent and in Form 'B' (a copy of which is given in Annexure 14 Volume II) when he acts as a principal. In actual practice, a number of stock-brokers do not issue the contract notes and there is no statutory requirement either that contract notes should be issued. It is also worth noting that no contract notes are exchanged between the members themselves. At the end of the settlement, however, a statement of account in respect of shares bought and sold from the "specified group" is sent to the client.

8.10 After the preparation of the contract notes, the transactions relating to "specified shares" are entered in three subsidiary books. The first book is a clients' subsidiary ledger. Transactions of each settlement are entered in this book client-wise. The second subsidiary book contain the business of a fort night broker-wise i.e., the opposite contracting parties in the market. The third subsidiary book is known as list book which records the business security-wise.

8.11 On the last day of the settlement, stockbrokers separate the outstanding transactions (i.e., transactions which have not been offset by opposite transactions during the course of the settlement period) from the clients ledger book into two categories viz., those transactions in which deliveries are to be taken or given and the balance which are to be carried forward to the next settlement. While the deliveries are given and taken at the contracted rate, carry-forward of the business is done at the making-up price fixed by the Stock Exchange authorities. A separate register relating to the deliveries given and taken is maintained.

8.12 The accounts of the clients are prepared thereafter from the clients 'khata' book i.e. ledger book, and a bill is sent to them from the bill book. This is also recorded in the clients' 'yalan' book, i.e., settlement book, and corresponding entries are also

made in the main ledger. With regard to his dealings in the market, the stockbroker prepares from the Bazar Contract book maintained by him a statement giving details of what is due to him or due from him to the different stockbrokers in respect of transactions either closed out during the settlement period or carried forward to the next settlement. Since the last few weeks, this is now worked out by the Computer Centre of the Stock Exchange and the work of the stockbrokers is limited to finding out errors, if any, in these statements rectifying mismatched memos with individual opposite contracting parties. While these memos are given to the debtors, consolidated statements of mismatched entries are given to both debtors and creditors. Based on this, the Computer Centre gives to each member the money statement called 19A statement showing the total debits and total credits memberwise. In his return to the Clearing House, the net amount payable and receivable by the stockbroker from the market as a whole is shown. The main ledger does not contain the individual accounts with different contracting brokers : it only contains the net amount due to or from the Clearing House.

8.13 As regards non-specified securities, maintenance of records in a stockbroker's office is greatly reduced as transactions in these securities have been completely computerised by the Computer Centre of the Stock Exchange since the last few years. The account of each stockbroker vis-a-vis the other brokers is sent to the stockbrokers at the end of each settlement. Stockbrokers, therefore, generally maintain two subsidiary books, viz., clients' subsidiary ledger and security-wise ledger. From the former, the fortnightly balances of clients are recorded in the clients' valan book and the main ledger. Bills are sent to them from the bill book.

8.14 The manner of maintenance of books of accounts and other documents by the members of the other Stock Exchanges are almost identical with those maintained by the members of the Bombay Stock Exchange. At the nine Stock Exchanges i.e., other than the Bombay, Calcutta, Delhi and Ahmedabad Stock Exchange, as trading is not permitted in 'specified' shares, members of these Exchanges maintain only one set of books relating to their transactions in all securities.

#### SECTION IV : IMPROVEMENTS IN THE PRACTICE

8.15 While the Committee does not propose to go into detail with regard to the maintenance of books and records by a stockbroker as after all they are subject to audit and a stockbroker knows how best to maintain his books and records and comply with the requirements of the Stock Exchanges there are still a few areas where we feel we should make recommendations in the larger interest of generating greater investor interest.

8.16 Instantaneous availability of information such as fluctuations in the prices and volume of securities

traded is of vital importance for efficient trading and close monitoring of the transactions on the Stock Exchanges.

8.17 Hence, firstly the present method of recording the transactions and prices by the stockbroker only in the sauda book and thereafter the prices being broadcast or written on the blackboards should be replaced by an electronic system whereby there is an instantaneous record of transactions and prices for the use of the offices of the brokers and for the Stock Exchange authorities.

8.18 At present, while some Stock Exchanges in India have rudimentary system of blackboards to display the ruling prices or a system of broadcasting of such prices at frequent intervals, such system being manual, suffers from inherent limitations and are of limited utility in providing timely and accurate information about prevailing prices or trends therein to the stockbrokers, Stock Exchange authorities and the investing public.

8.19 The Committee, therefore, suggests that there should, simultaneously, be an instant display of prices in the trading hall and at all other places, both in the Stock Exchange and elsewhere.

8.20 Details of keying in the information into the electronic system can be worked out in consultation with the computer agencies. On the basis of the keyed-in information, different types of data can be built-up, manual work-load and documentation can be reduced, procedures can be simplified and considerable improvement can be achieved in the efficiency and functioning of the Stock Exchanges.

8.21 Secondly, as the volume of business is growing fast, many of the bigger stockbrokers would soon be finding it almost impossible to attend to their in-house work without the use of the computers. While the Committee is glad to note that some of the leading stockbrokers have already started making use of the computers, it is recommended that the Stock Exchanges should use their good offices to exhort their members to make increasing use of the computer or microprocessor facilities either on an owned basis or on pooling arrangement or time hire basis for a speedier disposal of work in their offices.

8.22 Thirdly, the Bye-laws of Stock Exchanges should be suitably amended to provide for the compulsory issue of contracts to the clients. As recommended by the Committee elsewhere, these contract notes should not only give the price of the contract and brokerage and other charges separately, but must also indicate the time of execution of the contract so that the client is able to verify about the veracity of the price.

8.23 Finally, it is necessary that the members in their returns to the Stock Exchanges give the code numbers of their clients as regulation in respect of matters like collection of margins, etc., is related to gross open position of a member and not his net

position in the market. Besides, this will also help in working out the accounts of members vis-a-vis their customers.

## SECTION V: SETTLEMENT OF TRANSACTIONS

8.24 Settlement of transactions among members of the Stock Exchange is a complicated process. Through the process of trial and error, each Stock Exchange has evolved its own method over a period of time. Excepting at the Bombay Stock Exchange where transactions both in respect of "specified shares" and "non-specified securities" are fully computerised and at the Calcutta Stock Exchange where transactions relating to "specified shares" are computerised, at the other Stock Exchanges the work relating to settlement of transactions is still done by the manual process.

8.25 A brief description of the procedure of settlement at the Bombay Stock Exchange, as the Committee is given to understand, is explained as that can be taken as a model to be followed by other Stock Exchanges subject to suitable changes to suit local conditions.

8.26 The settlement period both for specified shares and non-specified securities at the Bombay Stock Exchange is 14 days. Trading in specified shares and non-specified securities starts on alternate Fridays and ends on alternate Thursdays of the week after.

8.27 At the end of each trading day, members submit to the computer centre details of all purchase and sale transactions entered into by them during the day in two separate sets of sauda sheets—one printed in red ink relating to specified shares and the other printed in green ink for non-specified securities. In the sauda sheet, the name and code number of the member submitting the sheet and the date of transactions are written on top. The purchases are entered on the left side and sales on the right side of the sheet. The security code number and its name are given in the middle. The sheet provides columns for the name and code number of the opposite contracting party, the number of shares transacted and the price of the transaction. Filling of the names of members and the security are optional. Although a separate column is provided for the code number of client, the same is not filed in at present.

8.28 The sauda sheets which are received by the Computer Centre on the very day of transaction are entered into the computer system through Direct Data Entry Terminals. For each transaction, the basic elements entered are the date of the transactions, the code numbers of the members involved, the security code number, the number of shares transacted and the rate and nature of the transaction (whether purchases or sales).

8.29 Once the entire data is entered and verified, the processing work starts. A check is made to find out whether the purchases and sales match. Thus if member A has reported that he has bought a certain quantity of a particular share at a certain rate from member B, then member B should have reported that he has sold the same quantity to member A. Normally

about 75 per cent of the reported transactions match fully. The remaining which do not match could be in the nature of absence of response from the other member or difference in either quantity or rate or both. Details of such unmatched transactions are printed out in each case in the form of a memo called the 'Seller's Comparison Memo' in duplicate and given to the reporting seller. Immediately on receipt of these memos, the seller contacts the buyer and reconciles the differences and returns one copy of the corrected memo with the buyer's endorsement to the Computer Centre, within 24/48 hours. Since the Comparison Memos are issued only to the seller, the buyer is issued a "Comparison Memo Statement" listing out details of all the memos issued where the member concerned figures as a buyer or seller. The fully matched and corrected transactions are logged day after day from the beginning of the settlement period to the last day of the period. Every day, each member is given a statement showing details of all his matched transactions upto the previous day. This statement called 1-2-A statement in respect of specified shares gives, security-wise, the cumulative brought forward totals upto that day followed by full details of the transactions during that day and the cumulative totals at the end of that day with appropriate sub and grand totals. This statement is given in respect of all transactions upto the last trading day of the settlement period.

8.30 In respect of non-specified securities, a statement called 1-2-B statement giving completely all matched transactions, security-wise is given to each member with appropriate sub and grand totals at the end of each settlement.

8.31 In respect of specified shares, each member has to submit to the Computer Centre at the end of each settlement a separate return giving security-wise details of the transactions he intends to carry-forward to the next settlement. These transactions are reversed by the Computer at the making-up prices fixed by the Stock Exchange authorities at or around the closing prices of the security on the last working day of the settlement and merged with the transactions upto the badla day for the settlement so as to arrive at the final delivery and receive position in each security of each member.

8.32 On Thursday following the last day of the settlement, the Computer Centre prints a Form called 6-7A showing security-wise the quantity of shares each member has either to deliver or receive. Members have been given the facility of giving or taking delivery of shares fully or partly through selected banks which are members of the Stock Exchange Clearing House. There are at present 24 banks selected for the purpose. A member wishing to deliver/receive the shares through the bank of his choice has to communicate this information to the Computer Centre the same day evening. The Delivery Orders and Receive Orders are then prepared by the Computer Centre on the basis of Form 6-7-A and details of all delivery and receive orders are also printed by the Computer Centre and given to each member.

8.33. The rate at which delivery of shares takes place is the making-up price. As this price is different from the prices at which transactions have been

entered into by members the differences between these two have to be worked out. Such differences, security-wise, are worked out by the Computer and given in a statement called 19-20-A alongwith summary of delivery and receive orders and compulsory carry forward due to 'no' delivery in the current settlement due to bookclosure. The final amount either payable or receivable by the member after taking into account the differences, delivery and receive orders is also shown in the statement. Each member is given a pay-slip or receive slip as the case may be and a summary of such pay and receive slips is given to the Clearing House.

8.34 The method of calculating the differences can be illustrated by the following example. In a particular security, member A has total purchases during the settlement period of say 1000 shares valued at Rs. 15,000 and total sales of 800 shares valued at Rs. 12,800. The net position works out to 200 shares purchase and the net amount actually payable by him is Rs. 2,200. The making-up price is, say, Rs. 17 per share. At the end of the settlement, A has to take delivery of 200 shares for which he has to pay Rs. 3,400 (Rs. 200 x Rs. 17). The difference between this amount (Rs. 3,400) and the differences in the original contracted amount (Rs. 2,200), i.e., Rs. 1,200 is, therefore, shown as receivable by A by way of differences. Thus A receive Rs. 1,200 by way of differences and pay Rs. 3,400 for taking delivery, the net effect being the same as the difference between the original contracted amounts. The making-up price and calculation of differences are absolutely necessary as settlement of a transaction takes place between two parties who may not and mostly are not the original parties to the contract.

8.35 Alongwith the 19-20-A statement and Delivery and Receive Orders, each member is given a carry over margin statement which is subject to a minimum of 3 per cent of the making up price. Members have to pay carry-over margin not only on the market position, but also on client-to-client carried forward. The client-to-client carry forward position is submitted by each member in a form called 102 and this alongwith market carry-forward position is processed by the computer to arrive at the carry-forward margin payable by the member. The statement shows the details of such calculation, security-wise, and the overall margin to be paid. Credit is given for the carry-forward margin the member has already paid in respect of the previous settlement and the final amount he has to pay/receive on account of carry-forward margin is shown in the statement. A separate pay slip or receive slip of the net amount is given to each member and a summary of such slip is given to the Clearing House.

8.36 The settlement is done through the Stock Exchange Clearing House run by the Bank of India. Each member prepares a 'Balance Sheet' in Form 31-A which gives details of differences payable/receivable by the member from the other members. Pay/Receive Slips in respect of shares to be delivered/received, carry-over margin, etc., The net amount resulting from the above is either payable by the member or receivable by him from the Clearing House.

8.37 On the designated Pay-in-Day, which is generally the second Monday following the end of the settlement period, all members who have to pay as per their Balance Sheet for the Settlement deposit their cheques with the Clearing House. Those members who have to receive payment as per the Balance Sheet enclose a draft for the amount to be received. The shares to be delivered as per delivery orders issued to the members are also handed over to the Clearing House. The Pay-out-Day is usually the third day after the Pay-in-Day. By this time, the deposited cheques are all cleared and the shares deposited are regrouped according to the members who have to receive them. Paying-out of money by crediting the respective accounts of members who have to receive the money as per the draft submitted by them and handing over the shares to the receiving members is done on the Pay-out-day.

8.38 In respect of non-specified securities, the second step after the preparation of 1-2 B statement is the preparation of the Delivery and Receive Orders. For this purpose, the total sales and total purchases of each member are worked out in terms of both quantity and value in each security. If a member has a sale position and also a purchase position in the same security, first delivery orders are prepared on himself. The balance is matched against the market. Matching is done with delivering members with respective quantities on one side and receiving members with respective quantities on the other. Splitting the quantities where necessary is done in such a way as to minimise the total number of orders prepared.

8.39 Delivery Orders are made at the standard price which is worked out as the weighted average price of all recorded transactions. As deliveries are effected at the standard price which will be different from the contracted price, differences arising therefrom (either payable or receivable) are worked out. The method of working out differences is the same as in the case of specified shares. These differences alongwith the details of delivery and receive orders and the payments resulting therefrom and the compulsory carry-forward of transactions, if any, due to no delivery in the current settlement are printed in a form called 19-20 B and issued to each member. The overall amount either payable or receivable by the member is also shown. This amount is also printed separately either as a Pay Slip or as a Receive Slip and given to each member. The Clearing House is supplied with a summary of all the Pay-Slips and Receive Slips issued to each member.

## SECTION VI : PAYMENT AND DELIVERY

8.40 Unlike specified shares, the Clearing House handles only the money part in the case of 'B' Group securities. Physical delivery of shares to the receiving members as indicated in the delivery orders are done by the delivering members themselves. After the delivery orders are issued, the delivering members group the shares in lots as specified in the delivery orders and hand over the shares along with the corresponding delivery order and the relevant transfer deeds to the receiving members on the settle-

ment day which is normally two days after the day on which the delivery orders are issued. Once the process of physical delivery is over, each member prepares a balance sheet where he enters the details of the Pay/Receive slips and the credit/debit notes relating to cases where delivery could not take place. The net amount shown in the balance sheet is either payable or receivable by the member. On the designated Pay-in-day, which is the day following the settlement day, all the members who have to pay as per their balance sheet send their cheques and those members who have to receive send their drafts to the Clearing House. The cheques are cleared in a day or two and on the Pay-out-day, the Clearing House credits the respective accounts of members who have to receive money as per the drafts submitted by them.

## SECTION VII : PROCEDURES AT OTHER STOCK EXCHANGES

8.41 The procedure for settlement and delivery of securities adopted at the other Stock Exchanges is relatively simpler mainly because of the lower volume of turnover. However, with the general trend of a progressive increase in the volume of turnover, there is a real need to computerise the settlement procedures at all the Stock Exchanges, irrespective of whether or not they conduct trading in specified shares.

## SECTION VIII : STUDY BY TATA CONSULTANCY SERVICES

8.42 At the request of the Committee, the Unit Trust of India had commissioned the Tata Consultancy Services (TCS) to make a study on the feasibility of automation of the operations on Stock Exchanges in India. A summary of the observations and recommendations of the first phase of the study on Automation of the Stock Exchanges, submitted by the TCS is given in Annexure 15-Volume II.

8.43 Detailed Interim Report on the first phase of the study on the subject is also given at Annexure 16-Volume II.

8.44 The Committee endorses the suggestion of TCS that in the interest of expansion of business of stock-brokers and simplifying the process of settlement as also for controlling more effectively the Stock Exchange operations by Stock Exchange authorities, the present system needs to be replaced by the timely capture of the data relating to each transaction by electronic devices. Consistent with the need to maintain some similarity with the existing trading methodology, to ensure the reliability of the system to provide consistent and fair environment for all operations and to provide uninterrupted service

through the right choice of the equipment TCS has suggested and the Committee approves the following approaches in this regard which would also enable the Stock Exchanges to upgrade the system to take advantage of future technological advances.

8.45 Instantaneous deal data collection by Stock Exchange personnel for immediate data entry into the computer system through the terminals installed in the Trading Ring.

8.46 Use of Screen Projection of VDU contents for the continuous display of security price and volume information in the Trading Ring.

8.47 For the purpose of communication between Exchanges, use of Star Network of Communication lines. To start with, this communication system would be used for exchange of information on price fluctuations, company news and announcements, for the benefit of the brokers as well as Stock Exchange authorities. However, in the long run the network would also be used for recording Inter-Exchange deals by the brokers.

8.48 It is likely that there may be some objection to the instantaneous deal data collection by the Stock-broking community who are long used to mere scribbling of transactions in the sauda book in the trading ring and there may be some practical difficulty also in implementing this proposal. But a solution has to be found out to ensure that the details of a transactions are entered into the computer system at the same time and from the same place where the transaction originates, i.e., the trading ring itself. For this purpose, the onus of reporting may have to be fixed on one of the parties to the transaction, preferably the seller. He should be required to keep with him a pad of sauda slips in triplicate wherein he would fill the details of the transaction like the code number of the buying broker, the code number of the security, the quantity, the rate and the time of transaction as soon as the transaction is entered into. The selling member can deposit one copy of the sauda slip into a receptacle in the trading hall from where the information will be directly keyed to the Computer Centre by the Stock Exchange personnel. He can give one copy of the sauda slip to the buyer for his record and retain the other copy.

8.49 The second phase of the study by the Tata Consultancy Services would deal with the technical details, cost aspects and other related matters. The Committee is of the opinion that after receipt of the second part of the Report from the Tata Consultancy Services the details of the whole scheme should be worked out by the proposed Council for Securities Industry in consultation with any reputed computer agency selected for the purpose and implemented as soon as possible.

## CHAPTER 9

### CODE OF CONDUCT, CUSTOMERS PROTECTION FUND AND INSURANCE COVER FOR MEMBERS OF THE STOCK EXCHANGES

9.1 Item Number IX of the Terms of Reference to the Committee relates to three crucial and consequential aspects of trading in securities on the Stock Exchanges. These are :

- (a) Code of conduct for the Members of the Stock Exchanges to safeguard the interests of investors and members;
- (b) Guidelines for the creation of a customers' protection fund; and
- (c) Provisions of insurance for members.

#### I. CODE OF CONDUCT

9.2 The imperative need to have a proper code of conduct for the stockbroker community need not be over-emphasised. This need has become all the more pressing in the context of the growing awareness of the importance of investment in industrial securities and consequent resurgence of investment activity in the primary as also the secondary markets for industrial securities in the country. The number of investors has gone up considerably in the last few years and the volume of business in securities has also increased manifold, leading to substantial financial commitments.

9.3 The Rules, Bye-laws and Regulations of the Stock Exchanges, as they are framed at present, contain certain provisions to protect the interests of the investors. These are, however, inadequate in the context of the complexity and growth of the securities industry. Besides, they are not enforced rigidly by the Stock Exchange authorities. As a result, many an investor finds himself helpless on several occasions with either his securities being locked up or payment of the consideration amount due to him being delayed inordinately.

9.4 Many of the investors are just not in a position to enforce even their limited rights under the existing restrictive provisions of the Rules, Regulations, Bye-laws and partly because of lack of knowledge on their part and more because of the cumbersome procedures involved in getting the same enforced. There is, therefore, a crucial need to simplify the procedures on the one hand and to enlarge the scope of these provisions on the other. Besides, the Stock Exchange authorities will have to enforce these provisions scrupulously and effectively.

9.5 Important as the emphasis on the protection of investors is, an equally vital aspect that merits serious consideration is the need to evolve a suitable code of

conduct for the clients as well. This is all the more necessary as there is an increase in the frequency of dishonouring contractual obligations with members and upsetting the market equilibrium by clients.

9.6 In countries like UK, where as yet there are no regular statutory provisions relating to regulation of securities industry, the various constituents of the security industry have evolved a code of conduct. Such a code of conduct has been more or less strictly observed by the various constituents of the industry. In a country like India, which has a statutory framework relating to the regulation and control of Stock Exchanges, the various provisions relating to the code of conduct should be incorporated in the Rules, Bye-laws and Regulations of the Stock Exchanges.

9.7 Any person dealing in securities whether a member or any other person dealing in securities with them shall observe the spirit of the code, even if the circumstances in which he is operating are not expressly covered by the code and shall act in conformity with the highest principles of fair and good business conduct, professional ethics and complete integrity.

9.8 The code shall apply to all persons who make use of the Stock Exchanges for trading in securities. Both the members of the Stock Exchanges and the clients of members, shall act fairly in accordance with the code's objectives, even if this results in their having to forego some advantage to themselves.

9.9 So far as members of the Stock Exchanges are concerned, the code of conduct that can be embodied in the Rules, Bye-laws and Regulations of the Stock Exchanges can cover the following four specific areas of relationship :

- (A) Members vis-a-vis Investing Public;
- (B) Members vis-a-vis Members;
- (C) Members vis-a-vis Stock Exchange Authorities;
- (D) Members vis-a-vis Government.

9.10 A code of conduct which is applicable to both members of the Stock Exchanges and the clients is appended. This code of conduct provides a basic framework and is without prejudice to generality of the detailed provisions embodied in this behalf in the Rules, Bye-laws and Regulations of the Stock Exchanges. The Committee recommends that suitable provisions should be made in the Securities Contracts (Regulation) Act, 1956 making it obligatory on the part of the members of the Stock Exchanges and the clients who deal with them to observe their respective



code of conduct. Necessary authority should be legally vested in the Council for Securities Industry to add, alter, delete or make any other changes in the Code of Conduct as may be deemed necessary from time to time when incorporating this Code in the Rules, Bye-laws and Regulations.

9.11 The objective of the Code of Conduct is to establish proper standards of conduct and behaviour on the part of the members of the Stock Exchanges and their clients, to promote healthy and smooth functioning of the Stock Exchanges in public interest and to protect the interests of the investing public and maintain their confidence in the institution of the Stock Exchange.

9.12 The Stock Exchanges should bring out a booklet on the code of conduct both in English and in the language of the State in which the Stock Exchange is situated and make it available to the members of the Stock Exchanges and the investing public. Every member of the Stock Exchange should act in conformity with the principles of good conduct and ethical behaviour and abide by the spirit of the code even if the circumstances faced by him in his dealings with the clients, other members, Stock Exchange and the Government are not expressly covered by such a code.

9.13 The Committee has, in Chapter No. 3 recommended changes in the structure of the Organisation and Management of the Stock Exchanges. In the context of the changes suggested therein, the Committee recommends that disciplinary action against violation of the provisions in the code of conduct should be taken by the Managing Director or by a Committee consisting of Chairman, Managing Director, Vice-Chairman and two non-elected Directors of the Governing Body. A member against whom disciplinary action is taken by the Managing Director or Committee shall, however, have a right to appeal to the Governing Body of the Stock Exchange and the decision of the Governing Body shall be final and binding on the members and the clients.

## II. CUSTOMERS' PROTECTION FUND

9.14 Under the existing provisions in the Rules, Bye-laws and Regulations of the Stock Exchanges, there is no provision for payment of any dues to non-member clients whenever a member is declared a defaulter. The available assets of a member who is declared a defaulter are distributed first to the Stock Exchange, next to the Clearing House of the Stock Exchange and last to the members of the Stock Exchange having claims against the defaulting member on a pro rata basis. As a result, there is no protection for any clients of a member, who is declared a defaulter.

9.15 In the light of the existing position, which is not conducive to instilling confidence in the minds of the investing public in the Stock Exchanges, there is also an imperative need for the creation of a compensation fund to take care of the legitimate invest-

ment claims, which are not of a speculative nature, of the clients of a defaulting member. The fund will have to be initially financed by way of a levy on the turnover of members, as was done by the Securities Investors Protection Corporation of the United States. Each Stock Exchange should also be required to contribute to such a fund 1 per cent of the listing fees received by it every year.

9.16 In order to prevent/minimise the chances of misuse of the scheme, the claims of each non-member may be limited to a maximum amount of Rs. 10,000 to begin with, which can be raised progressively in the years to come. It should also be ensured that the compensation from the fund will be granted only after a member is declared a defaulter and his assets are not sufficient to meet the liabilities and cannot in any way be utilised for compensating the clients in respect of a member who is experiencing financial difficulties.

## III : INSURANCE COVER FOR MEMBERS OF STOCK EXCHANGES

9.17 With the growing volume of business in the Stock Exchanges and in the absence of effective machinery for surveillance, monitoring and enforcement of a strict code of conduct, there has been a general deterioration in the standards of honesty, integrity and discipline of the members. As a result, acts of negligence, dishonesty, frauds, etc., are on the increase in the Stock Exchanges, leading to financial losses for the members and the investing public. There is, at present, no scheme of insurance to cover the various types of risks.

9.18 It is, therefore, recommended that in order to protect the interests of the general investing public and of the members themselves, necessary amendments to the Securities Contracts (Regulation) Act, 1956 should be made to the effect that each member shall be compelled by rules to take out and maintain in full force and effect, insurance policies in such amounts as the Stock Exchanges may require, covering the individual member and his partner's, officer's and employees'. Apart from a minimum self insurance for general risks like fire, theft and loss of cash, securities and valuable documents in safe and in transit, each member should also have specific insurance cover indemnifying the member against the liabilities and for the acts/commissions of the partner's, officer's employee's in respect of infidelity such as misplacement and forgeries of cheques, fraudulent trading, forging or pilfering of securities, manipulation of accounts, other acts of negligence, errors and loss, destruction or deprivation of securities or other documents etc. If possible, amounts of such insurance covers for different types of risks, in the aggregate, should bear some relationship with the system of net capital requirement or minimum margin that may be determined. For this purpose, the Stock Exchanges may work out an insurance scheme with the General Insurance Corporation of India with particular reference to the types of risks to be covered, the rate of premium to be paid by the member, the maximum amount of cover available for each type of risk, etc.



## CODE OF CONDUCT

A member shall be deemed to be guilty of misconduct or unbusinesslike conduct or unprofessional conduct if he violates intentionally or otherwise any of the following provisions of the Code of Conduct.

### SECTION A: MEMBERS VIS-A-VIS INVESTING PUBLIC

#### Integrity and Secrecy

(i) A member shall maintain high standards of integrity, promptitude and secrecy in all dealings with clients.

#### Books of Accounts

(ii) A member shall maintain proper books of accounts and records, shall render proper account to his clients for their purchases & sale of securities, and make prompt payment in respect of securities sold and arrange for prompt delivery of securities purchased by clients.

#### Records of Clients

(iii) A member shall maintain in respect of each client, whose investments he is managing, sufficient records to enable him at any time without undue delay to establish the precise cash, investment and business position of the client.

#### Credit Balance of Client

(iv) A member shall not, unless otherwise agreed to in writing by a client, hold or retain the free credit balances of the clients, for not more than three days.

#### Management of Accounts of Clients

(v) A member may manage or operate a discretionary account or managed fund for or on behalf of any client provided he shall have obtained first from the client a written authorisation signed by the client setting out the terms and conditions and the rates of commission or fees or other charges payable by the client for the operation of the account.

#### Terms and Conditions for Management of The Account of Clients

(vi) A member who undertakes to manage the investments of a client (whether or not on a discretionary basis) shall set out in writing his terms and conditions. These should include the following :

- (a) The fees to be charged for management and the basis on which they are calculated;
- (b) Arrangements for the custody of securities and cash;

(c) Arrangements for the payment of interest on uninvested balances; and

(d) Arrangements for reporting and valuations.

#### Execution of Orders

(vii) A member, in his dealings with his clients and the general investing public, shall faithfully execute the orders for buying and selling of securities at the best available market price.

(viii) A member shall give priority to the execution of the orders of his clients over his own and shall not play on the orders of his clients.

#### Issue of Contract Note

(ix) A member shall issue promptly to his clients an authenticated duly stamped contract note proper for all transactions in the prescribed form.

#### Clients of Other Members

(x) A member shall not deal with clients of other members if they have not conducted themselves properly in their dealings with other members.

#### Disclosure of Client Business

(xi) A member shall not disclose or discuss with any other person the details of personal investments and other information of a confidential nature of the client which he comes to know in his business relationship.

#### Abuse of Client's Information

(xii) A member shall not use the knowledge and information of a fiduciary nature gained from a client in the course of his business dealings with such client for the advancement of his financial interests or of his associates whether directly or indirectly.

#### Betrayal of Trust

(xiii) A member shall not betray the trust and confidence of the client by disclosing confidential information about his dealings in investments, his worth, etc. which he comes to know in the course of his business relationship.

#### Misuse of the Clients' Funds

(xiv) A member shall not use the funds deposited by the client with him towards the purchase of securities for speculative or other operations of his own.

### **Misuse Of The Documents Of Client**

(xv) A member shall not misuse the documents deposited by the client or pledge them with the banks to borrow funds for his own business.

### **Mishandling of The Account of Client**

(xvi) A member shall not make improper use of the securities of client or funds or execute transactions in securities for the account of a client without his knowledge and approval.

### **Excessive Business For Client**

(xvii) A member shall not effect with or for a client any transactions which are excessive in size or frequency in view of the investment objectives financial situation and needs of the client.

### **Purchase And Sale Prices**

(xviii) A member shall not pass to his client purchases made on his behalf at prices for too high compared to the ruling prices for the securities on that day or any arbitrary price not related to the market price at all.

(xix) A member shall not pass on to his client, sales made on his behalf at prices far too low compared to the ruling prices for the securities on that day or any arbitrary price not relating to the market price at all.

### **Delay in Delivery and Payment**

(xx) A member shall not commit any wilful delay in delivery of documents and payment of sale proceeds or neglect to complete the settlement of transactions with clients.

### **Business for Commission**

(xxi)(a) A member shall not encourage sales or purchases of securities with the sole object of generating brokerage or commission.

(b) A member shall not furnish false or misleading quotations or give any other false or misleading advice or information to the clients with a view to inducing him to do business in particular securities and enabling himself to earn brokerage or commission thereby.

### **Failure to carry out transactions with clients**

(xxii) A member shall not fail to carry out his stock broking transactions with his clients nor shall he fail to meet his business liabilities to his clients.

### **Business for defaulting clients**

(xxiii) A member shall not deal or transact business directly or indirectly or execute an order for a client who has within his knowledge failed to carry out his engagements relating to securities and is in default to another member unless such client shall have made a satisfactory arrangement with the member who is his creditor.

### **Dishonoured cheque**

(xxiv) A member shall not allow any cheque issued by him to his client to be dishonoured for any reason.

### **Speculative Business with an employee**

(xxv) A member shall not transact speculative business directly or indirectly for or with an employee in any public or private establishment without the written consent of his employer.

### **Communication to non-clients**

(xxvi) A member shall not issue to any non-client any circular or business communication containing investment recommendations or comments on individual securities.

### **Business with defaulting clients**

(xxvii) A member shall not transact any business for any defaulting client or his spouse or children or relatives.

### **Responsibility for the dealing of the sub-brokers**

(xxviii) A member shall be wholly responsible to the clients for all the dealings put through by the sub-brokers/authorised clerks or agents attached to him irrespective of any private understanding/agreement to the contrary which a member may have entered into with him.

### **Dealings with clients as a principal or as an agent**

(xxix) A member, when dealing with a client, shall disclose whether he is acting as a principal or as an agent and shall issue appropriate contract note ensuring at the same time, that no conflict of interest arises between him and the client. In the event of a conflict of interest, he shall inform the client accordingly and shall not seek to gain a direct or indirect personal advantage from the situation and shall avoid any prejudice to the interests of his clients with whom he has a fiduciary relationship.

(xxx) A member shall not encourage or induce any client to carry forward his transactions from one settlement to the other or transact speculative business.

(xxxi) A member shall not make a recommendation to any client who might be expected to rely thereon to acquire, dispose of, retain any involvement unless he shall have reasonable grounds for believing that the recommendation is suitable for such a client upon the basis of the facts, if disclosed by such a client as to his own security holdings, financial situation and objectives.

## **SECTION B : MEMBERS VIS-A-VIS MEMBERS**

### **Entering into Transactions**

(i) A member while entering into transactions with another member in the trading ring of the Exchange shall conduct himself with proper dignity and honour.

### Comparison of unmatched Transactions

(ii) A member shall cooperate with opposite contracting party in comparing unmatched transactions.

### Documents constituting bad delivery

(iii) A member shall not knowingly and willfully introduce documents which constitute bad delivery.

### Replacement of documents declared as bad delivery

(iv) A member shall cooperate with opposite contracting party in prompt replacement of documents which are declared as bad delivery.

### Introduction of forged documents

(v) A member shall not directly or indirectly be responsible for introduction of forged documents in the market.

### Delivery of securities and payment thereof

(vi) A member shall deliver the securities sold by him in time. In the like manner a member receiving the securities shall pay for the same in time.

### Cheques Dishonoured

(vii) A member shall not issue to any other member a cheque which is dishonoured on presentation for want of funds.

### Issue of Cheques in individual capacity

(viii) A member shall not issue cheques on behalf of a partnership firm, in his individual capacity.

### Concealed bargains

(ix) A member or any authorised clerk shall not transact any bargains intended to be concealed from that of his own firm.

### Concealed bargains

(x) A member shall not connive at a private failure of a member or accept less than a full and bona-fide money payment in settlement of a debt due by a member arising out of a transaction in securities.

### Transactions with authorised Assistant or Employee

(xi) A member shall not transact directly or indirectly for or with or execute an order for an authorised assistant or employee of another member without the written consent of such employing member.

(xii) A member shall extend fullest cooperation to other members in protecting the interests of their clients regarding their rights to dividends, right or bonus shares etc.

(xiii) A member shall not fail to carry out his stockbroking transactions with fellow members nor shall he fail to meet his business liabilities or show negligence to complete the settlement of transactions with them.

## SECTION C : MEMBERS VIS-A-VIS STOCK EXCHANGE AUTHORITIES

### Improper Conduct

(i) A member shall not indulge in dishonourable or disgraceful or disorderly or improper conduct on the Exchange nor shall he willfully obstruct the business of the Exchange.

### Failure to comply with resolutions

(ii) A member shall not contravene or refuse or fail to comply with or abide by any resolution, order, notice, direction, decision or ruling of the Governing Body or the Managing Director or of any Committee or Officer of the Exchange or other person authorised in that behalf under the Rules, Bye-laws and Regulations of the Exchange.

### Failure to submit or abide by arbitration

(iii) A member shall not neglect or fail or refuse to submit to arbitration or to abide by or carry out any award, decision or order of the Governing Body or the Arbitration Committee or the arbitrators made in connection with a reference under the Rules, Bye-laws and Regulations of the Exchange.

### Failure to testify or give information

(iv) A member shall not neglect or fail to refuse or submit to the Governing Body or to the Managing Director or to a Committee or an Officer of the Exchange authorised in that behalf, such books, correspondence, documents, and papers or any part thereof as may be required to be produced or to appear and testify before or cause any of his partners, attorneys, agents, remisiers, authorised assistants or employees to appear and testify before the Governing Body or the Managing Director or such Committee or Officer of the Exchange.

### Failure to submit special returns

(v) A member shall not neglect, fail or refuse to submit to the Managing Director within the time notified in that behalf special returns together with such other information as the Governing Body or the Managing Director may require.

### Failure to compare or submit accounts

(vi) A member shall not neglect or fail to compare his accounts with the Defaults' Committee or to submit to it a statement of his accounts with a defaulter or a certificate that he has no such account nor shall he make a false or misleading statement therein.

### False or misleading returns

(vii) A member shall not neglect or fail or refuse to submit or make any false or misleading statement in his Clearing Forms or returns required to be submitted to the Exchange or to the Clearing House under the Rules, Bye-laws and Regulations.

### Vexatious complaints

(viii) A member or his agent shall not bring before the Governing Body or the Managing Director

or a Committee or an Officer of the Exchange, or other person authorised in that behalf a charge, complaint or dispute which is frivolous, vexatious or malicious.

#### **Failure to play dues and fees**

(ix) A member shall pay his subscription, fees, arbitration charges or any other money which may be due by him or any fine or penalty imposed on him. A retiring or expelled member and the estate of a deceased member shall remain liable for all arrears, subscription, special subscription, levies, fines and other monies owing to the Exchange on any account whatsoever.

#### **Fictitious Name**

(x) A member shall not transact his own business or the business of his client in fictitious names.

#### **Fictitious Dealings**

(xi) A member shall not make a fictitious transaction or give an order for the purchase or sale of securities, execution of which would involve no change of ownership.

#### **Prejudicial Business**

(xii) A member shall not make or assist in making or with knowledge be a party to or assist in carrying out any plan or scheme for making of any purchases or sales or offers of purchase or sale of securities for the purpose of upsetting the equilibrium of the market or bringing about a condition of demoralisation in which prices will not fairly reflect market values.

#### **Rumours**

(xiii) A members shall not directly or indirectly and in any manner whatsoever circulate or cause to be circulated rumours of a sensational character.

#### **Manipulation**

(xiv) A member shall not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumours with a view to distorting market equilibrium or making personal gains.

#### **Malpractices**

(xv) A member shall not create false market either singly or in concert with others or indulge in any malpractice detrimental to the public interest or which leads to interfere with the market mechanism and smooth functioning of the Stock Exchange. A member shall immediately report to the Board of Directors or the Managing Director of the Stock Exchange, any suspicious or attempted operations or a transaction or transactions which would result in the creation of a false market or misleading appearance of trading or lead to upsetting the market equilibrium and which comes to his notice.

#### **Advice to clients**

(xvi) A member shall not give false and misleading information to the clients about the working of the companies based on rumours or gossips.

#### **Unwarrantable business**

(xvii) A member shall not engage in reckless or unwarrantable or unbusiness-like dealings in the market or effect purchases or sales for his client's account or any account in which he is directly or indirectly interested with purchase or sales are excessive in view of his client's or his own means and financial resources or in view of the market for such security.

#### **Excessive speculative business**

(xviii) A member shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial stability.

#### **Street dealing**

(xix) A member shall not call out prices or make bids or offers or trade in the street or at the entrance to or in the vicinity of the Stock Exchange.

#### **Option business**

(xx) A member shall not deal in option business or encourage or induce his client or a non-member to transact such business.

#### **Trading in suspended securities**

(xxi) A member shall not trade or transact any business in any security while the listing of that security is suspended by the Governing Body.

#### **Compliance with rules, bye-laws and regulations**

(xxii) A member shall strictly comply with the Rules, Bye-laws and Regulations, instructions, directions, etc. issued from time to time by the Stock Exchange or the Governing Body or the Managing Director, or a Committee or an Officer of the Exchange authorised in that behalf.

#### **Access to information not to be used by members**

(xxiii) A member shall not trade in any security if he had access to price sensitive information by virtue of his position of being a member of the Governing Body until the information is placed on the notice board of the Exchange and otherwise released for the information of the members.

#### **Business for exchange employees**

(xxiv) A member shall not make a speculative transaction in which an employee of the Exchange is directly or indirectly interested.

#### **Evasion of margin requirements**

(xxv) A member shall not evade or attempt to evade or assist in evading the margin requirements prescribed in the Rules, Bye-Laws and Regulations of the Stock Exchanges.

#### **Brokerage charge**

(xxvi) A member shall not deviate from or evade or attempt to evade the Rules, Bye-laws and Regulations relating to charging and sharing of brokerage.

(xxvii) A member shall not deviate from the schedule of brokerage prescribed and transgress the provisions of the Rules, Bye-laws and Regulations of the Stock Exchanges in this behalf.

#### **Business with Non-member**

(xxviii) A member shall strictly abide by any directions or instructions issued by the Governing Body, in its own discretion, prohibiting any member knowingly transacting any further business for and on behalf of any specified non-member or class of non-members or for any one acting on his or their behalf.

#### **Sharing of Brokerage**

(xxix) A member shall not share brokerage or commission with persons other than those permitted under the Rules, Bye-laws and Regulations of the Stock Exchanges.

#### **Manipulation of Budla Charges**

(xxx) A member shall not manipulate budla charges in any security.

#### **Inquiries and Investigations**

(xxxi) A member shall cooperate fully with any inquiries or investigations undertaken by any competent authority.

#### **Periodical Returns**

(xxxii) A member shall file periodical returns of all the transactions done in securities, both purchases and sales, with other members and his clients together with the contract rates and the total value of the securities, in such forms and for such periods as may be prescribed by the Stock Exchange.

#### **Failure to fulfil Underwriting Commitments**

(xxxiii) A member shall fulfil his underwriting commitments or obligations and shall not attempt to wriggle out of any of his underwriting/sub-underwriting obligations with companies or institutions.

#### **Insurance Covers**

(xxxiv) A member shall take such insurance covers as may be prescribed by the Stock Exchange and keep them.

#### **Minimum Liquidity Requirements**

(xxxv) A member shall comply with the requirement of the Stock Exchanges in respect of minimum liquidity, net capital or margins.

#### **Audit of Accounts**

(xxxvi) A member shall have his accounts properly audited on an annual basis by an independent qualified Chartered Accountant.

### **SECTION D : MEMBERS VIS-A-VIS GOVERNMENT**

#### **Payment of Stamp Duty**

(i) A member shall not evade in any manner payment of stamp duty to the Government.

#### **Payment of Income-tax**

(ii) (a) A member shall pay to the Government promptly income-tax and shall not indulge in any havalas transactions with any other member in order to evade income-tax.

(b) A member shall not be a party to the evasion of income tax by any party through the issue of "havalas" contracts for and on behalf of such a party to show fictitious profits or losses in his income-tax returns.

#### **Transactions in Securities**

(iii) A member shall not enter into any transactions in securities in violation of the provisions of the Securities Contract (Regulation) Act and the Rules framed thereunder.

#### **Insider Trading**

(iv) A member shall not engage himself directly or indirectly in any form of insider trading or encourage the same.

#### **Compliance with Statutory Requirements**

(v) A member shall abide by all the provisions of the Acts, Rules, Regulations, Guidelines, Resolutions, Notifications, Directions etc. issued by the Government from time to time applicable to the citizens of the country.

### **SECTION E : PENALTIES**

Every member of the Stock Exchange shall be liable to expulsion or suspension or withdrawal of all or any of his membership rights and privileges and/or to payment of fine and/or to be censured, reprimanded or warned for contravening, disobeying, disregarding or evading any of the Rules, Bye-laws and Regulations or any resolutions, orders, notices, directions, decisions or rulings thereunder of the Exchange or the Governing Body or the Managing Director or any Committee or any Officer of the Exchange or for any disreputable or fraudulent transactions or dealings with any person whether a member or not or for any conduct, proceeding or method of business which the Governing Body in its absolute discretion deems unbecoming of a member of the Exchange or inconsistent with just and equitable principles of trade. The Governing Body may, in addition to any other penalty which it may impose as above, direct the member, if the offence which a member is found guilty has resulted in a profit or gain to the member, to pay the amount of profit or gain to the Exchange and the Governing Body may deal with such amount in such manner as it deems fit.

In particular and without in any way limiting or prejudicing the generality of the provisions in sub-clause (a), a member shall be liable to expulsion or suspension or withdrawal of all or any of his membership rights and privileges and/or to payment of a fine and/or to be censured, reprimanded or warned off for his misconduct, unbusiness-like conduct or unprofessional conduct in accordance with the provisions set out hereinabove.

If a member is found guilty of any acts of misconduct, unbusiness-like conduct or unprofessional conduct for a second or subsequent time, he shall be suspended from doing any further business for a period of at least one month. If a member is found guilty repeatedly he shall be liable to expulsion or withdrawal of all or any of his membership rights and privileges.

#### SECTION F: CODE OF CONDUCT FOR CLIENTS

Very often it happens that the clients of members do not keep up their market commitments in respect of their dealings in securities with members. A code of conduct has to be set out for clients as well for the orderly functioning of the Stock Exchanges.

##### Defaulting Clients not to Trade

(i) Clients of members shall not while in default with one member, be permitted to carry on trading in securities with any other member.

##### Failure of Market Obligations by Clients

(ii) Clients who commit default or fail to meet their market obligations with one member shall be disqualified to do business in securities in the market till they have set right the default or settled their dues and claims to the concerned member in full and any failure to so settle shall render them liable to be warned off by the Governing Body or the Managing Director and they shall be forbidden from transacting in securities on any Stock Exchange.

##### Timely Delivery of Documents

(iii) Clients of members shall give delivery of documents in respect of their sales through a member in due time and shall take delivery of documents in respect of their purchases through a member in due time as prescribed in the Rules, Bye-laws and Regulations of the Stock Exchange.

##### Cheques Dishonoured

(iv) Cheques issued by clients if returned dishonoured shall render the clients as not safe for dealing and their names shall be reported to the Stock Exchange for blacklisting.

##### Malpractices by Clients

(v) Clients involving the members in any malpractices in so far as they relate to their dealings with members detrimental to the public interest shall be warned off from the Stock Exchange by the Governing Body.

##### Non-fulfilment of Market Obligations

(vi) Any client of a stockbroker member not fulfilling his market obligations shall be liable to be reported to the Stock Exchange and black-listed and his name put up on the notice board of the Stock Exchange and circulated for the information of other members, warning them not to do any business with him.

##### Client to make Payment

(vii) A client of a member shall delivery documents and take delivery of documents delivered to him by a member in respect of his purchases.

##### Client to give Delivery

(viii) A client of a member shall delivery documents in due time in respect of his sales.

##### Client to meet Market Obligations

(ix) A client shall meet his market obligations to any members in respect of his business in securities or dealings with him.

##### Client to comply with Stock Exchange Decisions

(x) A client shall not contravene or refuse or fail to comply with or abide by any resolution of the Governing Body or direction of the Managing Director of the Exchange in relation to his business in securities with a member.

##### Client to submit or abide by Arbitration

(xi) A client shall not neglect or fail or refuse to submit to arbitration or to abide by or carry out any arbitration award, decision or order of the Governing Body or the Arbitration Committee or the award arbitrators made in connection with a reference to arbitration under the Rules, Bye-laws and Regulations of the Exchange.

##### Client to testify or furnish Information

(xii) A client shall not neglect or fail or refuse to submit to the Governing Body or the Managing Director or Officer of the Exchange authorised in that behalf, such books, correspondence, documents and papers or any part thereof as may be required to be produced or to appear and testify before the Governing Body or the Managing Director or such Committee or Officer of the Exchange as may be authorised in that behalf.

##### Vexatious Complaints

(xiii) A constituent shall not bring before the Governing Body or the Managing Director or a Committee or an officer of the Exchange or any other person authorised in that behalf a charge, complaint or dispute which is vexatious or malicious.

##### Client to pay Dues and Fees

(xiv) A client shall pay his dues, arbitration charges or any other money which may be due by him to the Exchange and to the members.

**Fictitious Names**

(xv) A client shall not transact his own business in fictitious names.

**Client to carry out Transactions with Members**

(xvi) A client shall carry out his transaction in Stock Exchange securities with a member.

**Business in Securities in which dealings are not permitted**

(xvii) A client shall not enter into transactions in securities in which dealings are not permitted or dealings are suspended.

**Evasion of Rules, Bye-Laws and Regulations**

(xviii) A client shall not contravene or evade or attempt to evade the Rules, Bye-laws and Regulations of the Stock Exchange in his dealings in securities with members.

**Challenging the Rules, Bye-laws and Regulations**

(xix) A client shall not refuse to submit himself to the Rules, Bye-Laws and Regulations or contend or challenge that the Rules, Bye-Laws and Regulations of the Stock Exchange are not applicable to him.

**Indulging in Overtrading**

(xx) A client shall not indulge in overtrading beyond his financial capacity or means

**Involvement in Speculation**

(xxi) A client shall not make or assist in making or with such knowledge be party to or assist in carrying out any plan or scheme for making of any purchases or sales or offers of purchase or sale of securities for the purpose of upsetting the equilibrium of the market or bringing about a condition of demoralisation in which prices will not reflect fairly market values.

**Insider Trading by a Client**

(xxii) A client shall not engage himself directly or indirectly in any form of insider trading.

**SECTION G : PENALTIES**

(i) Any client of a member who is found guilty under any of these presents or otherwise shall be liable to be warned off and his name shall be liable to be blacklisted and he shall be declared unfit to carry on or enter into any business transaction in any Stock Exchange securities with any member of any Stock Exchange.





## CHAPTER 10

### **MEASURES TO IMPROVE OVERALL SERVICE TO THE INVESTORS BY THE MEMBERS OF STOCK EXCHANGES AND TO ENCOURAGE SMALL INVESTORS PARTICULARLY IN SEMI-URBAN AND RURAL AREAS TO INVEST IN INDUSTRIAL SECURITIES WITH A VIEW TO MOPPING UP LARGER VOLUME FOR PRODUCTIVE INVESTMENT**

#### **PART A : MEASURES TO IMPROVE OVERALL SERVICES TO THE INVESTORS BY THE MEMBERS OF STOCK EXCHANGES**

##### **SECTION I : INTRODUCTION**

10.1 In our view, the concept of improvement of overall services to the investors would not be complete and meaningful unless we cover various aspects of services provided to the investors not only by the members of the Stock Exchanges but also by the Stock Exchanges themselves and by the listed companies. However, the measures which need to be introduced for improving the overall services to the investors by the members of the Stock Exchanges and other agencies and the steps to be taken to encourage small investors, particularly in semi-urban and rural areas, to invest in industrial securities being, quite often, common and inter-related, some overlapping in the coverage has been inevitable.

10.2 Stockbroking is considered to be a profession which presupposes, professional conduct, outlook, approach, expertise, ethics and integrity and a keen desire to render personalised services to the clients on the part of the stockbrokers. However the majority of members of the Stock Exchanges in our country consider stockbroking as mere 'trade' for executing clients' orders without having to render any other worthwhile services to them.

10.3 The average investor, on the other hand, wants his stockbroker not only to execute his orders for purchase and sale of securities but also to help him to protect his rights to dividends, bonus or right shares, etc., obtain prompt delivery of share certificates and to provide him expert advice and professional guidance in investment matters so that he can plan his portfolio of investments to suit his means, requirements of income, capital appreciation, tax planning, etc.

10.4 The primary requirement to bring about improvement in the quality of the services rendered by the stockbrokers is, therefore, to broaden their outlook, improve their knowledge about the mechanics and intricacies of investment and to make them conscious about their own obligations to safeguard the interests of the investors. This would be possible only if the stockbrokers learn through proper education and training, modern methods of investment techniques portfolio management and investment counselling.

10.5 Members of Stock Exchanges should also have adequate organisation, resources, manpower, proper infrastructural facilities like office space, telephone, market intelligence, analysis and research facilities, etc. Unfortunately, in the environment which prevails presently in the Stock Exchanges of our country, only a few stockbrokers are in a position to do full justice to their profession and discharge their duties and responsibilities to the investors.

10.6 Many of the stockbrokers of the Stock Exchanges are persons of limited means whose market earnings are largely dependent on speculative business transacted on behalf of clients and taravani business on their own account. These small stockbrokers do not have enough outside clients. Some of them supplement their income by doing limited underwriting business or by canvassing for fixed deposits in companies from the general public. As far as possible, such small stockbrokers should be persuaded to merge with others to form efficient and viable units which can organise themselves in a better way, pool their resources and stand on their own and be capable of rendering some meaningful services to the genuine investors. Excessive speculative activity of the stockbrokers should also be curbed and they should be made to concentrate more of their attention on genuine investment business rather than speculative business so that their services to the investors improve.

##### **SECTION II :**

##### **PROBLEMS FACED BY INVESTORS AND MEASURES TO TACKLE THEM.**

10.7 In order to improve the services to the investors, it is of foremost importance to identify and solve the difficulties that are presently faced by the investors. With this end in view, the main difficulties that an investor has to encounter in the course of his operations through the stock markets are enumerated below.

**(i) Disclosure of actual transaction price and prohibition of transactions being squared in the stockbroker office.**

10.8 Many representations received by the Committee mention that investors in industrial securities often feel let down by the stockbrokers by not getting the fair price for the securities which they buy or sell. They have no means to know the prices at which their securities are bought or sold by the stockbrokers, commission charged to them, whether

business in securities transacted is cum or ex-dividend, bonus, rights, etc. Furthermore, the investor has no means to ascertain whether the transaction of sale/purchase actually took place at the rate reported to him by the stockbroker. In fact, most of the investors are not even aware about the extent of fluctuations in the prices of shares during a given day and even the newspapers do not give full information about such fluctuations in the prices. The investor, thus, tends to accept the closing quotations which are quite often manipulated. Moreover, in India, a stockbroker also acts as a principal and trades on his own account in the market. Some clients, therefore, apprehend that the stockbrokers appropriate their orders and play in the market on such orders. Quite often, the stockbroker does not even execute the orders of his clients on the floor of the Exchange but crosses such transactions with those of others in his own office, at negotiated prices in accordance with his judgement which may not subserve the interest of his clients. The Byelaws of the Stock Exchange should, therefore, be amended to ensure that the stockbroker is prohibited from matching transactions of his clients in his office and such transactions are executed by him only on the floor of the Exchange.

10.9 It should also be made obligatory on the part of members of Stock Exchanges to issue contract notes for all transactions concluded by them which not only give details of the securities purchased or sold but also the details about the commission charged, the stamp duty paid, whether the stockbroker has acted as principal, the time at which the bargain is executed, and whether the securities purchased or sold are cum or ex dividend, bonus or rights.

10.10 The Stock Exchange authorities should conduct surprise audit of the books of the stockbrokers and closely monitor their transactions to ensure that they strictly observe the Byelaws and Regulations framed for the purpose.

10.11 There should be more floor governors to ensure that prices at which the transactions take place in the trading rings during official working hours are promptly reported and recorded and that they are not manipulated. The closing prices should not be allowed to be recorded unless transactions for a sufficient number of securities have taken place to warrant such a change as it is common knowledge that often the closing quotations are attempted to be 'fixed' by the stockbrokers, depending upon the position of options ("teji-mandi") and orders they have of the institutions or big clients on hand. This point has already been dealt in Chapter.

#### (ii) Kerb Trading

10.12 Kerb trading should be stopped completely as it has a distorting influence on the price structure. Further transactions emanating from kerb trading should not be permitted to be officially recorded in the opening trading session, the next day. With a careful watch on the transactions of the known stockbrokers who operate on the kerb, it should be

possible for the Stock Exchange authorities to prevent such orders being regularised. The Byelaws of the Stock Exchanges need to be amended for the purpose.

#### (iii) Prompt Delivery/Payment to Clients

10.13 A common complaint of several investors is that they do not get the delivery of securities which they have purchased from the stockbrokers for a long time, even after they have made full payment for them. Similarly, when they sell the securities, investors complain that they do not receive the sale proceeds thereof for quite sometime, even after they give physical delivery of the securities to the concerned stockbrokers. An impression is often created that the stockbrokers use the clients' securities for a collateral purpose and also often use clients' funds for financing their speculative transactions.

10.14 It is, therefore, necessary that suitable provisions should be incorporated in the Code of Conduct for the stockbrokers and in the Byelaws and Regulations of Stock Exchanges for effecting prompt deliveries of securities and payment of sale proceeds. In the view of the Committee, severe penalties, including suspension of membership, should be imposed in the event of non-compliance of provisions regarding deliveries and payments. Besides, the Stock Exchanges should widely publish in the newspapers the settlement programmes giving inter alia the dates for delivery of shares, the pay-in and pay-out dates, the list of securities which are cum or ex-dividend, bonus or rights, etc. regularly for the information of the investing public so that they can protect their own rights vis-a-vis the stockbrokers. It should also be made obligatory on the part of stockbrokers to open separate bank accounts and safe custody accounts for depositing their clients' moneys and securities so that they do not get mixed up with their own.

#### (iv) Squaring up of Transactions

10.15 Even though the cash scrips hardly account for 10 per cent of the total volume of business, the stockbrokers do not pay much attention to settle the outstanding accounts of the clients. The Stock Exchanges have, therefore, to resort to suspension of business and trading, frequently, in order to clear up the arrears resulting in inconveniences to the investors. Sometimes the Stock Exchanges are obliged to compel the stockbrokers to square up the old outstanding transactions at prices prevailing on a particular day, with the result that even those clients who are interested in receiving deliveries are forced to pay or receive differences based on prices prevailing on the particular day.

10.16 The Committee is of the view that squaring up of transactions should not be allowed in cases where the investors want to take delivery of shares. It, therefore, recommends that the Byelaws regarding closing out of transactions must be revised suitably to ensure that all those who want to take deliveries of shares receive the same at the contracted purchase prices and if the deliveries are not forthcoming they should be enforced through automatic auction within

a fixed period and the difference in price, if any, should be collected from the erring stockbrokers.

#### (v) Responsibility for the actions of Sub-Brokers

10.17 Some of the stockbrokers obtain orders of clients through their sub-brokers. There is a growing tendency among stockbrokers to disown the responsibility for the acts of sub-brokers when the clients complain about non-receipt of securities or non-receipt of payments. This difficulty is particularly experienced by investors from semi-urban and rural areas for whom measures of redress is a costly and often fruitless exercise.

10.18 It should be provided through suitable amendments to the Byelaws, if necessary, that the stockbrokers would be held responsible for the acts of commission and omission of the sub-brokers associated with them, so far as the clients are concerned, no matter whatever be the relationship inter-se, express or implied, between them and the sub-brokers and any breach of these provisions should render the stockbroker liable for disciplinary action, including expulsion. This subject has been covered under the chapter on "Membership".

#### (vi) Bad Deliveries

10.19 It has been reported that the securities delivered in the market to clients in respect of purchases against payment are sometimes returned by the companies when lodged for registration. The delivering stockbrokers when requested to replace the defective documents do not co-operate with the purchaser in getting the fresh signatures of the sellers on the transfer deeds or in enabling the purchaser or his stockbroker to recover dividends, bonus or rights shares from the seller. Having received the sale proceeds of securities in full the selling stockbrokers cease to take any interest in the matter.

10.20 Such stockbrokers, on receipt of complaints against them, should be severely reprimanded and fined by the Stock Exchange authorities; if they still refuse to accede to the reasonable requests of the purchasing stockbrokers/clients, suitable disciplinary action must be initiated by the Stock Exchanges to suspend the concerned stockbrokers. This would help, to some extent, in avoiding delays in clearing the objections raised by the companies and in effecting speedy transfers of securities in the names of the investors.

### SECTION III : PROBLEMS FACED BY STOCKBROKERS AND MEASURES TO TACKLE THEM

10.21 Most of the stockbrokers are generally not interested to do business placed with them for a small number of shares or debentures particularly when such business flows from moribund or outstation customers. This is because such business involves too much of table work and the costs of servicing the business like postage, salaries of staff, establishment costs, cost of correspondence, etc. have all gone on making it uneconomical for the stockbrokers to handle such business from small investors. They do not also want to waste their time, energy and slender manpower resources for completing the formalities for

transfer of shares and in entering into correspondence with the clients and the companies. More often, they are chary of undertaking risks, inherent in accepting outstation business. Further, orders given to them for buying and selling securities are such that the stockbrokers are at times not able to execute them particularly when they relate to odd lots of shares or shares of companies which are not actively traded or not traded at all.

10.22 Most of the stockbrokers do not even have resources of their own or loan facilities from Banks by way of overdraft or bill discounting to improve their infrastructural facilities or to finance their clients temporarily.

10.23 It needs to be appreciated that the stockbrokers have to function in an environment, free of problems and difficulties, to render useful services to the investors. Therefore, it is worthwhile to examine the anatomy of the external problems which come in the way of the stockbrokers rendering proper services to the clients. The major problems faced by the stockbrokers carrying on securities business are—

- (i) adequacy of financial resources ;
- (ii) infrastructural facilities for dealing on behalf of clients in market trading units and odd lots of shares ;
- (iii) formalities and procedures for securing transfer of shares into the names of the buyers ;
- (iv) facilities provided by the Stock Exchanges and the conditions of their general functioning ; and
- (v) problems connected with the public limited companies.

#### (i) Adequacy of financial resources

10.24 Considerable liquid funds are required by the Stockbrokers for conducting stockbroking business. The resources at the command of majority of stockbrokers are limited. This affects not only their scale of their business operations but also the efficiency of whatever limited operations they undertake.

10.25 At present, the commercial banks do not evince interest in providing working capital to the Stockbrokers even for the securities held by them as stocks in trade in the course of their business. A deliberate policy shift on the part of the banks is very much necessary if transactions on the Stock Exchange have to grow over a period of time for strengthening the capital market, promoting capital formation and making operations of the securities industry viable. It is felt by the Committee that there are certain safe areas which could be financed by the banks without encouraging speculative activities of the stockbrokers. During the last couple of years, the non-convertible debentures have become quite popular with the investing class. The non-convertible debentures by their very nature are not suited for speculative activities. Moreover, given the buy-back facilities extended by the Investment Institutions scope for their market depreciation is quite limited. Banks could provide loans

against non-convertible debentures, if any, pledged with them by the stockbrokers. Bank may also consider granting credit facilities against the security of cash scrips, if necessary with sufficient markins higher than for non-convertible debentures. Adequate working capital facilities should also be provided by the banks to the stockbrokers who are members of Stock Exchanges to augment their business finance, thereby facilitating payment requirements of their clients.

10.26 For encouraging trading activities in odd lots and inactive scrips and with a view to facilitating the specialists to quote two way prices and thereby lend liquidity to such investments, bank loans should be made available to the specialists.

10.27 Similarly, grant of specific loans at reasonable rates of interest may also be considered by the banks to enable the stockbrokers to purchase office equipment, renting or furnishing of office premises, etc.

10.28 For integrating Stock Exchange activities in the country's financial systems, it is, therefore, desirable that suitable policy changes are brought about for encouraging commercial banks to lend to stockbrokers/specialists against their trading and other activities. This subject is discussed in the Chapter on Membership.

#### (ii) Odd lots of shares

10.29 The unit of trading in industrial security on the Stock Exchanges is generally 50 for shares of Rs. 10 nominal value and 5 for shares/debentures of Rs. 100 nominal value except in some cases of high priced shares of Rs. 100 face value like Century, where the unit of trading is one share. There are numerous investors in the country who happen to hold shares in odd lots i.e. other than such marketable lots. Odd lots of shares arise due to a number of factors such as : (i) allotment of shares in small numbers among many applicants for new issues; (ii) issue of bonus or right shares in varying proportions by the companies; (iii) merger and amalgamation between companies; (iv) family partitions; (v) inheritance or succession; (vi) issue of convertible debentures and resultant allotment of equity shares on conversion; (vii) conversion of non-convertible debentures into shares in certain proportions; (viii) splitting of share certificates for holding shares in small lots to take advantage of distribution of discount coupons or free gifts at the Annual General Meetings by the companies concerned, etc.

10.30 The problem of odd lots of shares has assumed alarming proportions in recent times and it is becoming increasingly difficult for small investors to sell such odd lots of shares and even when they are able to sell the same, they get prices far too lower than the prices for market lots.

10.31 Moreover, even though such transactions are conducted mostly on a spot delivery basis, they are not settled for months and in some cases even for years. The prescribed time limit for the settlement of odd lot transactions and later on the Stock Exchanges directing compulsory liquidation of long

overdue outstanding positions by the stockbrokers at the major Stock Exchanges have not yet resulted in satisfactorily resolving the problem. Apart from causing lot of irritation, inconvenience, hardships and heart burning to the genuine investors, particularly the small investors, the existence of odd lots shares causes considerable inconvenience to the managements of both the existing and the new companies which are required to send to each of the holders of such odd lots, Annual Reports of the companies (which cost a minimum Rs. 15 per copy), dividend warrants, notices and circulars, etc. compelling the companies concerned to incur heavy expenditure by way of servicing such holders of odd lots shares. As a result, some of the companies have, of late, begun to amend their Articles of Associations conferring a right on the Boards of Directors to refuse to register transfers of shares which are not in marketable lots or sub-divide share certificates into less than trading units. Such an action on the part of some of the companies may have some justification based on the cost of servicing but it has added a new dimension to the problems and has led to further difficulties faced by the small investors. As it is, the small holders are presently denied free transferability and liquidity of their shareholding even though they may be prepared to reconcile to accept throw-away prices for selling their odd lots of shares.

10.32 The problem of odd lots of shares has, therefore, to be tackled on an urgent basis. It is heartening to note that some of the Investment Institutions have recently come forward to purchase, on a selective basis, odd lots of shares in dividend paying companies, offered to them, around market price. The Committee has already suggested in the Chapter on "Listing of Industrial Securities" that the Controller of Capital Issues, while giving sanctions for bonus, rights shares or convertible bonds/debentures should stipulate ratios/convertible portions in such proportions as to eliminate odd lots, as far as possible. It has further suggested that the basis of allotment of shares in respect of public issues of capital should normally result in marketable lots at lower categories so that the companies are not obliged to issue certificates for odd lots of shares.

10.33 Most of the investors are not able to sell their holdings of corporate securities readily in case of urgent need, because, either the securities are not traded at all or traded infrequently. This difficulty is felt by investors, all the more, in respect of odd lot of shares and inactive shares. Often the investors are forced into distress sales at whatever prices quoted by the stockbrokers as stated earlier.

10.34 The Committee has already recommended in its Chapter on 'Membership' the creation of a specialist class of market makers known as "specialists" who may be assigned the task of dealing in odd lots of shares of certain selected companies on a fixed commission basis and that the banks should give them necessary financial support to supplement their resources to undertake this work in the cause of the small holders.

10.35 The Committee has been informed that the practices followed at the various Stock Exchanges in respect of delivery of the number of share certificates and the number of transfer deeds to constitute a market lot is not uniform. While at almost all the Stock Exchanges any number of certificates together with any number of transfer deeds can be tendered for delivery to constitute marketable lots, at the Bombay Stock Exchange not more than two transfer deeds can be delivered against the market lot while there is no limitation on the number of share certificates. In order to bring uniformity in the matter so that no difficulties are experienced in inter-market transactions, the Committee is of the opinion that the Stock Exchanges should examine the feasibility of our suggestion that in respect of transactions in marketable lot of shares, delivery could be made upto three certificates of odd lots of shares standing in the names of upto three different persons if accompanied by the requisite number of transfer deeds. This suggestion if implemented, would help a great deal in consolidation of odd lots into marketable lots.

10.36 The public limited companies should also cooperate in consolidating odd lots into marketable lots where odd lot certificates are presented for transfer. It is noted that many companies put through the transfer of odd lots of shares without taking the trouble of consolidating share certificates into marketable lots.

10.37 It is, however, felt by the Committee that the best way to solve the problem of odd lots would be for the public limited companies to take the initiative to approach their shareholders requesting them to send all the odd lots of shares held by them to the companies to enable them to consolidate the same into marketable lots, appoint a nominee(s) and sell all the consolidated shares in the open market and distribute the proceeds thereof through him/them to the odd lot holders, on a pro-rata basis.

10.38 It would greatly help to dispel the doubts of the investors in odd lot shares and inactive shares about the reasonableness of the prices at which the stockbrokers buy or sell such shares, if the transactions in such shares are also separately reported in the newspapers for the benefit and information of the general public.

### (iii) Formalities and Procedures of transfer of shares

10.39 An investor in industrial securities does not enjoy the rights of ownership in the company unless his name is entered in the Register of Members of the company. For this purpose, both he and the person from whom he has purchased the industrial securities have to execute a proper instrument of transfer, duly filled in, and have to forward the same to the company for registering the transfer of the said securities in his name. Such a transfer form, in case of shares, is to be date stamped by the prescribed authority (Registrars of Companies and

designated income tax officers at some centres). In practice, delivery of the shares certificate accompanied by a transfer deed duly signed by the seller and witnessed is handed over to the purchaser. The transfer deed is then signed by the purchaser and lodged with the company for registration after affixing the requisite stamp duty. The formalities required to be complied with for the registration of transfer of shares in the Register of Members of the company and certain exemptions are detailed exhaustively in Section 108 of the Companies Act, 1956. The said Section stipulates, inter alia, that after the instrument of transfer is properly executed both by the transferor and the transferee, the same has to be delivered to the company, in case of shares dealt in or quoted on the Stock Exchanges, for effecting the transfer at any time before the date on which the Register of Members is closed for the first time after the stamped date, or within two months of the stamped date, whichever is later and in any other case within two months.

10.40 The question relating to the use of transfer forms has two aspects. One aspect is that the transfer form used for transfer is a blank transfer signed only by the seller of the securities. The other aspect is the stipulation of period upto which such blank transfers can remain valid.

10.41 The question of the use of blank transfer forms has been frequently debated by various Governmental Committees during the last 60 years. It has been generally realised that for the purpose of ensuring free negotiability, transferability and liquidity of the shares, the use of such blank transfer forms is necessary even though there may be possibilities of evasion of taxes, non-payment of stamp duty, excessive speculation and unaccounted money being used and generated into share transactions. However, it has been deemed necessary that the period of circulation of such blank transfer forms should be limited and accordingly it has been stipulated that these transfer forms should be valid till the closure of the Register of Members of the company or two months from the date of stamping, whichever is later. It is argued for various reasons, some of which are given below, that the dating of transfer forms and the consequent limiting of the currency of the blank transfers comes in the way of free negotiability of shares, stifles the cult of equity and creates innumerable hardships to the genuine investors, particularly, from the remote parts of the country.

10.42 The Registers of Members of the companies are closed on many occasions during the year such as at the time of declaration of interim or final dividend, issue of bonus or right shares or debentures, calling of Annual or Extraordinary meeting, etc. Only seven days' notice for closure of Register of Members is required to be given by the companies as per the Companies Act, 1956 and announced in the newspaper circulating in the district in which the registered office of the company is situated. But according to the listing requirements of the Stock Exchanges, a notice of at least 30 days is insisted upon for the closure. More often than not, most

of the investors and stockbrokers are not able to keep track of such closure of books of the companies listed on all the Stock Exchanges. Even if they do, the time of notice is so inadequate that by the time the Stockbrokers get the transfer forms from the sellers and send them to the purchasers for due execution and present the same to the company for registration, the Register of Members of the company is, at times, invariably closed.

10.43 Often, the transfer deeds with share certificates bearing different stamped dates, are continuously in circulation in the market. These are generally lodged for transfer by the time Register of Members of the company is closed. Delivery of shares in the market is itself stopped 10 to 13 days before the date of commencement of closure of the Register of Members or record date. According to the Bye-laws and Regulations of the Stock Exchanges if the stockbroker of the seller party gives delivery of shares of a company to the stockbroker of the purchasing party just before 10 to 13 days of the closure of the Register of Members of a company, the stockbroker of the purchasing party is bound to accept delivery of the said shares. In such cases, if the purchasing party lives outside the place where the Stock Exchange concerned is situated, not much time is left for the stockbroker to send, through post or otherwise, the transfer deeds to the purchaser for obtaining his signatures thereon, complete the formalities of transfer and lodge them with the company in time before the closure of the Register of Members. This often results in transfer deeds becoming outdated. The stockbrokers who are saddled with such transfer deeds may have to get fresh transfer deeds signed by both the sellers and purchasers before the documents are re-submitted for registration and in doing so time is lost and the rights pertaining to the shares remain vested with the existing registered shareholder who has sold the shares. This causes a good deal of difficulties to all concerned leading to accumulation of time barred documents with brokers obliging them to lock up their own funds for some time.

10.44 Even if the Register of Members is not closed by the time and transfer forms are presented to the company, the same may be rejected by the company, for reasons that the signature of the transferor does not tally with his specimen signature registered with the company, or that there are some corrections or mistakes in the transfer deeds which require the initials of both the buyers and the sellers of shares, etc. This invariably results in the shares not being registered in the purchaser's name, in time, before the Register of Members of the company is closed.

10.45 In such cases the Regional Director of the Company Law Board of the area where the registered office of the company is situated is authorised to revalidate the transfer forms and that too on a payment of fee of Rs. 25 per every transfer worth Rs. 5000 or less on filing an affidavit, etc.

10.46 It is reported that due to the difficulties encountered in getting the shares transferred in time

and transfer being recorded in the Register of Members of the companies, a substantial amount of money, particularly of the small investors, has been locked up with stockbrokers, for considerable time, because of the transfer forms being rendered invalid for one reason or the other.

10.47 The Sachar Committee had, in its Report in 1979 debated this question and had come to the conclusion that the stamping of the date on transfer forms by the prescribed authority should be abolished as it had led to a lot of administrative problems and inconveniences to the shareholders. It had, however, suggested at the same time, that the transfer forms should be required to be signed and dated by the transferor. It had also suggested that if the same was in circulation for more than 6 months without being lodged for registration with the company and if the Company Law Board was satisfied that this was being done with a view to acquiring indirect control of the affairs or of the management of the companies or for other collateral purposes, the voting rights in respect of such shares should be exerciseable by any person who acquired such shares either as a member or as proxy so long as such shares were not lodged for transfer.

10.48 It is argued that the difficulties experienced by the genuine investors and stockbrokers to comply with the requirements of Section 108 of the Companies Act, 1956 are real and come in the way of smooth and orderly operations of the Stock Exchanges, lead to loss of faith and confidence in the institutions of the Stock Exchanges and cause a lot of harassment to the genuine investors. What is more, the investor who has purchased the shares and had paid the consideration money for such a purchase does not get the rights of ownership to dividends, bonus or rights declared by the company. This means that the seller enjoys the rights over and above the receipt of the consideration money. Only recourse left for the purchaser is to go to the court of law to enforce his rights unless the Stock Exchanges or the stockbrokers help him out in the matter.

10.49 The Committee recommends the following measures to mitigate the hardships caused to the investors in getting the shares of the company purchased by them transferred to their names in the Registers of Members of the Companies :

(1) The period of validity of the transfer forms should be two months from the date of stamping by the prescribed authority or one month after the date of re-opening of Register of Members after closure for the first time subsequent to the date of stamping whichever is later. The Committee recommends necessary amendment for the purpose in Section 108 of the Companies Act, 1956 in the interests of the investors.

(2) For the closure of the Register of Members the period of notice to be given by the companies should be increased from 7 days to 30 days and the said notice should also be given to the Stock Exchanges concerned, besides being given in any



newspaper circulating in the district where the registered office of the concerned company is situated. Section 154 of the Companies Act, 1956 will require suitable amendments to this effect.

(3) The Stock Exchanges should also increase the guarantee period of delivery of shares by the selling party to 21 days before the closure of the Register of Members or Record Date instead of the present 10 to 13 days. Bye-laws and Regulations of the Stock Exchange in this regard should be suitably amended. If necessary, the period of notice to be given by the companies under the listing agreements, should be suitably enhanced.

(4) The transfer forms and application forms for new issues should also provide for columns giving details about the existing portfolio numbers, if any, of the shareholders/applicants, and the name of the bank, its branch and the shareholders'applicants' account number where the dividends, refund moneys, interest warrants, etc. can be directly credited.

(5) The public limited companies should accept the signatures of the sellers on the transfer deeds, it duly attested by bank officials of the rank of Branch Manager and above, Gazetted Officers, Honorary Presidency Magistrate, Notary Public and the Managing Director of the Stock Exchanges. The relevant provisions of the Companies Act, 1956 should suitably be amended to provide for this. An additional provision in the relevant Section of the Companies Act, 1956 may also be made to the effect that the companies will accept signatures in all the Indian languages as also thumb impressions whenever they are attested by any of the designated persons, mentioned above. In this context, the Committee realises that there could be chances of fraudulent attestation in some cases.

10.50 The Committee feels that to insulate itself from the likely financial liability which may devolve on it, the company concerned should take an appropriate insurance cover, which we are given to understand, is available from the General Insurance Companies.

10.51 If the purchaser of shares lodges share certificates together with duly executed transfer deeds before the closure of the Register of Members of the company and the transfer deeds are found incomplete or defective for one reason or the other, the company should immediately inform the purchaser/stockbroker concerned and not wait till the opening of the Register of Members and also ensure that dividends, bonus or right shares pertaining to the shares in question are not despatched to the seller whose name stands registered in the books of the company and hold the same in trust for the purchaser till such time the issue is resolved. Additionally, the voting rights of the registered shareholder should also be frozen. A separate Register for all such cases should be maintained by the company. If necessary should be legislative changes may be effected in the concerned Act.

10.52 The period of acceptance of the share certificates and the duly executed transfer deeds may be extended by the companies beyond the last date for the closure of the Register of Members in case of delay in lodgement of documents relating to the transfer, due to causes connected with the post, by the actual period of delay as is provided in Section 27 of the Securities Contracts (Regulation) Act, 1956, in case of title to dividends, provided the documents are posted by registered post before the closure of Register of Members. Suitable modifications may be made to Section 108 of the Companies Act, 1956.

10.53 If the documents of transfer are in order, the companies should not in principle have the freedom to refuse registration of the transfer of shares. However, for the present, free transferability should be ensured in cases of small holder where the aggregate holding of the shareholder does not exceed a specified amount in terms of the face value as recommended by the Committee in its Chapter on 'Listing of Shares'.

10.54 The companies must verify the signatures of the transferors on the transfer forms, whenever required before the documents consisting of share certificates and transfer deeds are lodged with the companies for registration. This is in accordance with the listing agreements with Stock Exchanges. If, however, the signature of the transferor does not tally, the power to say that the signature does not tally should vest only with the Secretary of the company.

10.55 It is recommended that common guidelines be framed by the proposed Council for Securities Industry concerning various aspects relating to formalities to be observed by the companies for transfer of shares and verification of signatures, on transfer deeds procedures to be followed in cases of death of shareholders, loss of share/debenture certificates, etc. so that practices and procedures are simplified and followed uniformly by all the listed companies in such matters to avoid hardships and harassments to the investors.

10.56 There has been recommendations from various Committees appointed by the Government in the past that the stamp duty on the transfer of securities should be reduced considerably and made uniform all over India. This Committee also recommends that the stamp duty on transfer of shares should be reduced to 25 paise for every Rs. 100 or part thereof, of the market value or consideration amount. The Committee is also of the view that the stamp duty on transfer of debentures should be fixed uniformly, in all States, at 25 paise for every Rs. 100 or part thereof of the market value or consideration amount. This question again will have to be taken up with individual States where the stamp duty in the case of debentures is higher than 25 paise.

10.57 In most places, share transfer stamps are not available at all post offices. Use of franking machines by the Stock Exchanges should be permitted for the purpose of payment of share transfer stamp duty. Share transfer stamps should also be made available at all the post offices. Such steps



will help the stockbrokers to render better services to the investors by removing their difficulties in the matter.

**(iv) Facilities provided by the Stock Exchanges and their general functioning.**

10.58 It may be mentioned that the question of improvement in the services provided by the stockbrokers is also closely linked with facilities provided to the members by the Stock Exchanges.

10.59 Most of the Stock Exchanges do not have enough office space, telephone facilities, sufficient space in trading ring, intercom facilities from and to the stockbrokers' offices, library or research facilities, etc. Most of the Stock Exchanges also do not provide any training facilities for their members by way of refresher courses or otherwise to broaden their knowledge and experience and to have a better perception of their duties and responsibilities to the investors.

10.60 There would be a considerable improvement in the services rendered to the investors by the stockbrokers if among others, (i) the administration of the Stock Exchanges is toned up; (ii) the Stock Exchanges enforce strict observance of their Rules, Byelaws and Regulations by the stockbrokers, take prompt disciplinary actions against erring members, ensure that the work of the Stock Exchanges is not disrupted by frequent strikes and suspension of business, limit the number of holidays etc.; (iii) membership of the Exchanges is increased commensurate with the increased volume of business; and (iv) Stock Exchanges expedite the settlements, get the outstanding transactions cleared fast, take timely action to prevent build up of speculative positions and occurrence of frequent payment crises, strengthen their audit and inspection machinery, etc.

10.61 Moreover, the Stock Exchanges should monitor on a regular basis, the due compliance by the companies of the provisions contained in the listing agreements entered into by the companies with them relating to matters having a bearing on share prices. The Stock Exchanges should also ensure that their Defaults and the Arbitration Committees function effectively and place more emphasis on the protection of the interests of the investors. It should be ensured that the assets of the defaulting members should not be appropriated solely with a view to protecting the interests of the member brokers only. Similarly, the Arbitration Committee should function in such a way that justice is done to the investor. In this connection, as suggested in the report on 'Membership' the procedures and formalities of the Committee should be simplified, there should be frequent meetings of the Committee to avoid delays in giving their awards and outside persons should be inducted into the Committee to ensure fair and impartial justice to the investors. It must also help the stockbrokers a great deal if the working of all the Stock Exchanges is synchronised and integrated through common procedures and practices relating to marking of quotations cum and ex-rights, cum and ex-dividend on the dates of

closure of transfer books, settlement periods, trading hours, clearing systems, electronic display on the notice boards of prices prevailing on other Stock Exchanges, imposition of margins, penalties and taking other disciplinary measures against members, etc.

10.62 Modernisation of service facilities and reduction in clerical work for record keeping and maintenance through the use of microprocessors on a shared basis among stockbrokers, increasing use of desk calculators, installation of franking machines for collection and accounting of stamp duty and for postage stamps, installation of computers in the Stock Exchanges to handle growing volume of business of the Stock Exchanges, use of telex and teleprinter for rapid communication and flow of information among Stock Exchanges, etc. would also considerably improve the services rendered by the stockbrokers to their clients.

10.63 There are numerous complaints made by the investors against the stockbrokers. The Stock Exchanges should constitute 'grievance cells' for redressal of the hardships and problems faced by the investors while dealing with stockbrokers. It is noted that at the Standing Committee of the Stock Exchange Presidents held at Indore recently, a decision has been already taken to establish such a grievance cell in each of the Stock Exchanges. These grievance cells should be managed by the executives of the Stock Exchanges and senior members of the secretariat.

10.64 However, to be of real use to the investors, such grievance cells should take expeditious action on complaints made by investors with suitable evidence. In case of serious problems where the complaints cannot be resolved by bringing together the stockbroker and the investor, the matter may be referred to arbitration under the Byelaws and Regulations as early as possible. The establishment of such a grievance cell will, itself motivate the stockbrokers to improve the services to the investors.

10.65 Excessive speculative activity is harmful to the functioning of the Stock Exchanges as also to the investing public as it creates problems of market disruption and default on the part of the stockbrokers. The best way for curbing speculative activity and thereby protecting the interests of investors is to ensure complete and prompt disclosure on the part of each stockbroker of his business transaction in the market, both between members inter-se and between members and clients. Each stockbroker should be required to make full disclosures of the prices and volume of securities traded by him, to the Stock Exchange. The Stock Exchanges in turn should consolidate this information relating to number of shares/securities traded and their market values, and release it to the public. The Stock Exchanges should also call for the disclosure of the names of all large purchasers/sellers from the stockbrokers. This subject is also dealt with in Chapter 7.

10.66 Disclosures should be made mandatory even on the part of the listed companies. Whenever any

person or a group of persons acquires 5 per cent or more of the overall paid-up capital of a company this fact must be immediately notified to the Stock Exchanges and also advertised in at least two newspapers of the region where the registered office of the company is situated together with the names of the purchasers and the rates at which the securities have been acquired. Such a disclosure would help other investors and the general public to know whether any takeover bid is being contemplated. Even though the code of conduct for takeovers by the companies has been recently introduced, quite a large number of shareholders would not find it to be in their interest if unscrupulous persons keep on taking over management of companies by surreptitious means. Investors would like to be cautioned, well in advance, about what is going on in the market and take recourse to measures that are available to them well in time.

10.67 It is the opinion of the Committee that it would be a great service to a small investor in industrial securities if a feeling is generated in him that his moneys will not be lost on account of default or failure on the part of his stockbroker. In this connection, the Committee has already recommended that the Stock Exchanges should set up Investors' Protection Fund and also direct the stockbrokers to take insurance covers against certain contingencies.

#### SECTION IV : PROBLEMS CONNECTED WITH THE PUBLIC LIMITED COMPANIES AND MEASURES TO TACKLE THEM

10.68 One of the major stumbling blocks in the efforts of the stockbrokers in rendering proper service to the investors is stated to be the unhelpful attitude and non-cooperative approach of the staff manning the share departments of most of the public limited companies. It is alleged that they do not realise that in helping the stockbrokers to expedite the completion of transfer formalities, issue of certificates, answering their queries, etc. they are serving their own shareholders. It is further stated that the staff of the share departments in most of the companies do not cooperate by attending to their work expeditiously, do not keep the schedules of dates for delivery of documents after registration, sub-division or consolidation or verification of signatures or transfers, make constituents and stockbrokers wait inordinately or go again and again to their offices. If such allegations are true, the attitude and approach of the staff working in the share departments of the companies would require to be changed so that there is an overall improvement in services rendered to the investors. It is also a question of the managements of the companies becoming aware of their responsibilities to the shareholders and their toning up the working of their share departments, improving their efficiency and of delegating proper authority to responsible officials for the share department work. Unless the managements of the companies themselves realise the importance of rendering prompt and efficient service to their shareholders, the stockbrokers alone cannot do much. Numerous complaints

are made by the shareholders in the newspapers and through correspondence with the companies concerned regarding non-receipt of share certificates, dividend warrants, allotment letters, refund orders for moneys due on applications, non-reply to their queries, correspondence, etc. It is, therefore, high time that the Chambers of Commerce, Merchant Chambers and other Associations which represent and are the spokesmen of public limited companies start taking keen interest in such matters and evolve a code of conduct for the companies to follow in this field, so that the image of the private corporate sector improves. The Institute of Company Secretaries can also, through their circulars and news media, issue necessary guidelines and impress upon the Secretaries of the companies the need to tone up the efficiency of the secretarial and share departments under their charge and in helping the managements simplify and streamline the procedures and practices in connection with the work of the share departments. The Stock Exchanges, themselves should monitor, on a regular basis, the due observance by the companies of the provisions of the listing agreements in this regard. Services to the shareholders can also improve considerably if the companies make dividends/refund orders/interest pay orders payable at par at all the branches of their banks. All the listed companies should publish their unaudited working results at least on a half yearly basis and on a quarterly basis if their paid up capital is Rs. 10 crores or more. They should also publish frequently other news items on important developments having a bearing on the working of the companies for the information of the shareholders and investing public.

10.69 The Committee has already recommended in its chapter on the Listing of Industrial Securities that :

- (a) minimum lot of transfer and sub-division of shares should correspond to the market value of holding.
- (b) if any company does not issue refund orders/allotment letters within a period of ten weeks from the date of closure of the subscription list, the company concerned must be required to pay interest on the amount to be refunded at the rate of 15 per cent per annum from the expiry of ten weeks from the date of closure of subscription list till the actual date of posting of the refund order. Auditors of the Company should certify due compliance of this requirement.
- (c) the company should agree to despatch the certificates in respect of securities under transfer to the lodging broker if so requested by the transferor.
- (d) bonus or right shares are issued by the company in such proportion that the issue of fractional certificates is reduced to the minimum. In case such fractional certificates remain the same should be permitted to be consolidated and sold in the market and thereafter the sale proceeds should be

proportionately distributed to the shareholders who are entitled to such fractional certificates.

## PART B : MEASURES TO ENCOURAGE INVESTORS IN THE SEMI-URBAN AND RURAL AREAS TO INVEST IN INDUSTRIAL SECURITIES

### SECTION V : AN OVERVIEW

10.70 The population of investors in industrial securities, estimated at 5 to 6 million, continues to remain small for a large country like India with a fairly well developed financial system and relatively high level of financial savings in relation to its national income. The Reserve Bank of India's data on composition of the net national savings reveal that during the period 1981 to 1984 the aggregate savings as proportion to NNP were around 17 per cent and the financial savings accounted for about 54 per cent of the total savings. But, during the period 1981 to 1984 the capital market could mobilise for investment in industrial securities only about 3.5 per cent of the aggregate financial savings.

10.71 One of the main reasons for the small size of investor population and the small proportion of savings being mobilised in industrial securities is that bulk of the investors continue to remain confined mainly to urban areas with vast segments of semi-urban and prosperous agricultural belts remaining outside the spell of industrial securities.

10.72 Considerable savings of the household sector in the semi-urban and rural areas await to be channelled into industrial securities. It is, therefore, suggested that the corporate sector should tap this source and the investors from the semi-urban and rural regions, particularly the small investors, should be induced to invest in industrial securities.

10.73 However, before we talk of measures to encourage the investors, let alone the small investors, from these areas to invest in industrial securities of the corporate sector, the fundamental prerequisite for all involved in investment activity is to understand the psychology of the semi-urban and rural savers.

10.74 In any traditional agricultural society, an investor is essentially conservative. Being subjected to the vagaries of monsoon and vicissitudes of agriculture, he would prefer investments which are safe and secure; yield reasonable returns; provide for comparable liquidity; do not fluctuate much in market price; and bestow on him some 'status' in the society. He, therefore, normally invests in tangible physical assets. Even when he is induced to invest in financial assets, he naturally looks for investment which have the same characteristics to which he is used to when he invests in physical assets like land, gold and jewellery. His investments are generally of a long term character and he tends to hold on to them unless he is in a dire necessity to part with them. He is essentially possessive and wants ownership and possession

passed on to him as soon as he makes an investment. He would like to manage his investments by himself. He is now gradually getting familiarised with the safe investments like bank deposits, national savings certificates, postal deposits, etc. His investment in industrial securities presently is insignificant. If he is to be encouraged to invest in industrial securities he needs to be convinced that such investments are not only safe and secure but are also more advantageous than the conventional alternative investments he is used to. This will indeed be a slow process and lot of spade work will have to be done to educate him about benefits of investments in industrial securities. It would not, therefore, be appropriate to expose him too much at the early stage to the equity issues of new companies where he may get a low return or nil return for at least four to five years when his investment may also depreciate. Such a move can prove to be counter productive from the point of view of the spread of the cult of equity in the interior of the country. For augmenting the flow of resources to the corporate sector, the small investor should, therefore, be advised and guided to go in for safe and convenient investments such as units of Unit Trust of India or special instruments like cumulative convertible preference shares announced in the Budget for 1985-86 etc. The Development Institutions may also consider issue of participation certificates in minimum lots of Rs. 10,000 face value with reasonable yield and adequate buy-back arrangements, to the rural investors.

10.75 The well established and profitable public sector enterprises should also be requested to issue debentures which can be offered to the said investors in with buy-back arrangements from the Investment Institutions.

10.76 The Committee is fully conscious that what we are really concerned with is not so much the securities in which the investors put their savings but essentially the diversion of their savings from unproductive to productive investment. Nevertheless, as a first crucial step, towards investment in industrial securities of the private corporate sector, the investors from the semi-urban and rural areas may be slowly initiated in industrial securities through the offers of selected debentures—both convertible and non-convertible—and equity shares of the established and well managed dividend paying companies. A start could be made by the Controller of Capital Issues reserving about 20—25 per cent of such public issues of securities for semi-urban centres and rural areas, with a population of 1,00,000 and less, while giving capital consents. Similarly, the Development and Investment Institutions can offer, from time to time, securities, particularly debentures from their own portfolios to the investors in semi-urban and rural areas at reasonable prices. Such measures would go a long way in developing an interest for industrial securities among such investors, who will eventually on their own, start taking greater risk of investing in other issues based on the helpful guidance of the stockbrokers and their agents or other investment counsellors. Even then, it would take some time for such an investor to appreciate the complexities, the

risks, the uncertainties and the opportunities associated with the industrial securities. Hence it would, perhaps, be too early to expect an upsurge in demand for industrial securities from such investors in the near future.

## SECTION VI : SUGGESTIONS FOR CREATING AWARENESS AND CHANNELLISING THE SAVINGS OF SEMI-URBAN AND RURAL INVESTORS INTO INDUSTRIAL SECURITIES

10.77 Under the circumstances mentioned earlier, it would be better to chalk out and implement a long range strategy to create greater investment consciousness about industrial securities and widen and deepen their markets simultaneously both in urban and semi-urban and rural areas. The following measures, among others, can form an integral part of an overall strategy :

- (i) Carrying out effective publicity campaign to create awareness about the advantages of investing in industrial securities.
- (ii) Strengthening of the stock market mechanism including opening of more Stock Exchanges in more of the major urban centres.
- (iii) Spreading the infrastructure for trading in securities, strengthening the net work of stockbrokers, sub-brokers and agents to semi-urban and prosperous agricultural areas.
- (iv) Making use of the services of post offices and banks for investment promotion.
- (v) Improving the preinvestment advice and after-sales-services to the investors, and
- (vi) Providing protection to investors from the losses arising out of unethical practices or default of stockbrokers.

### (1) Publicity for creating awareness

10.78 As part of the general publicity campaign, the investor should be educated about the (i) benefits flowing from investments in various types of industrial securities, (ii) working and functioning of Stock Exchanges, (iii) formalities for applying for securities offered for public subscription, (iv) mode of purchase/sale of securities, brokerage payable, etc., (v) procedures for transfer of shares at the time of purchase/sale of securities, settlement of transaction details, etc., (vi) analysis of balance sheets, profit and loss accounts, annual reports and other corporate publicity literature like brochures, etc., (vii) rights of investors vis-a-vis the stockbrokers, the Stock Exchanges and the companies, (viii) implications of voting rights and procedures for appointing proxies, etc.

10.79 This type of general publicity can conveniently be undertaken as part of the investors' education programme by the proposed Council for Securities industry. Publicity also needs to be undertaken by several other agencies and the Government also

should offer necessary support in these efforts. This can be done by way of publication of small booklets/pamphlets written in simple.

10.80 While individual companies may bring to the attention of the investors the advantages of their securities, the trade and industry associations may be requested to take a leading part in general publicity about opportunities and advantages of investment in industrial securities. The stockbrokers may also be permitted to advertise about their own business alongwith investment consultants cum merchant banking firms who are already active in this field. All the parties connected with publicity campaign literature in the field of investment must, however, be subjected to proper discipline through close scrutiny of their publicity material and regulation of their activities. The Committee suggests that a proper provision be made in this regard in the Byelaws and Regulations.

10.81 For the purpose of publicity all the traditional as well as modern modes of advertisements need to be employed. National and regional newspapers, fortnightlies and monthlies may be the regular media of publicity. Radios and TVs, with their extensive network and community centres, are two powerful media which are now within easy reach of people living in semi-urban and rural areas. The Committee suggests that Government may, therefore, consider allotting, on a priority basis, specific time on radios and TV at periodic intervals to propagate the message of investment in industrial securities apart from disseminating information of quotations of prominent securities. The Government should also make arrangements for allowing publicity about industrial securities, stockbrokers' firms, etc. at concessional rates. Moreover, concessional postage should be made available for literature, circulars, quotation lists, investment advices or market reports posted by the Stock Exchanges and stockbrokers. The regional Stock Exchanges can organise seminars, lectures, press conferences in the semi-urban and rural areas, at frequent intervals to spread the message of industrial securities and increase the public awareness about investment opportunities therein. It would also help, a great deal in cultivating investment habits, if the Stock Exchanges extend their support in organising investors' clubs or investors' bureaux at certain district centres in semi-urban and rural areas.

### (2) Strengthening of Stock Exchange Mechanism

10.82 For a sub-continent of the size of India the present number of Stock Exchanges (13) is quite small. A vast majority of potential investors do not have access to the facilities offered by the Stock Exchanges in the nearby areas. Postal delays and lack of effective means of communication act as a great deterrent to the spread of the cult of industrial securities. It is, therefore, suggested that more Stock Exchanges should be established in all the non-metropolitan centres each with population of 5 lakhs or more. Suggestions have been received by the Committee that centres such as Jamshedpur, Patna, Bhubaneswar, Kota, Raipur, Chandigarh,

Simla, Varanasi, etc. should all have their own Stock Exchanges in the next five years or so. It has also been suggested that, to begin with, there is no need to open full-fledged Stock Exchanges at all such centres and that, as a first step, the existing Stock Exchanges may be permitted to open branches or regional representative offices at cities with large investment potential. However, for such branch or representative offices to function efficiently they will have to be well linked with the help of electronic quotation boards displaying prices of popular scrips ruling at the main Exchanges and for dissemination of other vital investment information. In so far as the representative branch offices of the main Stock Exchanges are concerned, they should be in a position to get latest quotations and other information in the same fashion as the banks get through electronic communication system. It is felt that the operative cost involved in such a link up will be within reasonable limits and can be borne by the stockbrokers/operators working at the branch/representative offices. If necessary, in the early stages, Government may consider subsidising the cost of such a link up.

### (3) New work of Sub-Brokers and Agents

10.83 The brokers should be encouraged to appoint sub-brokers for representing them so that they can carry on business in industrial securities in the semi-urban and prosperous rural areas.

10.84 The investors in semi-urban and rural areas are not used to the mechanics of trading in industrial securities and the complexities of such securities. They do not know where to invest, when to invest and how to invest. They are not familiar in dealing with application forms or the transfer forms and do not know how to fill them up. They do not understand the value of their specimen signatures, what to do with allotment letters, letters for rights and bonus shares and how to proceed in all such matters. Some of them do not even encash their dividend warrants. They, therefore, need proper guidance and help in such matters. In this context also, the importance and advantages of appointing sub-brokers need to be appreciated. Since the sub-brokers will be local people with good personal contacts with potential investors in their respective regions they would provide information on investment opportunities, give proper guidance and help the investors in solving their investment problems and serve as the effective channel for spreading the cult of industrial securities. Moreover, the investors will also feel confident that their interests are being protected by the local sub-brokers in whom they have trust.

10.85 There should be no bar on the sub-brokers, particularly located in semi-urban and rural areas, in regard to the nature of other gainful activities they can conduct. As the income that could be generated from the sub-broking activity will be relatively small in the early years of their operations, they would find it difficult to rely exclusively on the income arising out of the sub-broking business. It is, therefore, necessary that the sub-brokers are chosen from among well established people having

their own business and also enjoying high reputation in the local community.

10.86 The stockbrokers may be encouraged to open their own branch offices in centres where the Stock Exchanges are not situated, and which can function as an integral part of their overall operations. At present, as the stockbrokers do not provide this facility, the upcountry investors have to face a number of hardships and inconveniences while investing in industrial securities. The advantage in having branch offices of the stockbrokers would be that they would try to tap investible savings for channelling into industrial securities and giving better service to the investing public.

10.87 In addition to the sub-brokers and the branch offices of the stockbrokers, the services of the agents canvassing business for Life Insurance, Units of Unit Trust of India and National Savings Certificates may also be utilised for spreading the message of industrial securities provided they are given the same brokerages as the stockbrokers enjoy at present. Even the services of security dealers proposed to be licensed should be enlisted for the purpose.

### (4) Use of services of the Post offices and Commercial Banks

10.88 The post offices and commercial banks have a wide network of branches in the semi-urban and rural areas. If their services for the spread of investment in industrial securities can be utilised somehow, a revolution in tapping rural savings for industrial development would be created. However, while the services of the post offices can better be utilised for the purpose of distribution of literature on industrial securities and application forms for issues of debentures and shares, the branches of banks in rural and semi-urban areas would be the right agency for canvassing investment in industrial securities. After the nationalisation, public trust in banks is high in these areas and they have the necessary experience and background trained staff with knowledge about industrial securities and satisfactory infrastructure facilities. It would, however, be necessary that banks should not regard industrial securities as competing with their business of deposit mobilisation especially when they are canvassing business for their own esteemed clients whose operations would expand faster on the basis of capital raised by them from the public.

10.89 Further, since the investor in rural and semi-urban areas may not be conversant with procedural formalities relating to acquisition and transfer of shares and debentures, banks should encourage investors and their account holders to acquire and hold corporate securities either in the name of the bank or jointly in the names of the bank and investor. This will facilitate the rural and semi-urban investor in overcoming in some hurdles and avoid compliance with formalities on his part.

10.90 In cases of delay the branch manager himself will then take up the matter with the brokers, sub-brokers, licensed dealers, etc. In fact, the

banks do keep in safe custody securities on behalf of their constituents. Where the shares are held in the name of the bank, declaration of beneficial interest has to be made under Section 187-C of the Companies Act, 1956.

10.91 The banks should also encourage investors to open accounts with them and obtain mandates from them whereby applications for new issues and collection of dividends and interests on behalf of the clients, could be facilitated. This will encourage indirectly banking habits among rural investors and facilitate tapping of rural savings.

10.92 For this purpose, it will be necessary to train bank staff at different branches and impart to them necessary knowledge about acquisition and dealing in securities.

10.93 The charges for rendering the above services should be minimal and the banks should examine the proposal and establish necessary administrative facilities in this connection.

10.94 It may be noted in this context that banks are rendering a valuable service for the securities industry in Germany especially through their branches located in Berlin and Frankfurt. In U.K. some banks are even part owners of member firms of Stock Exchanges. The views of the representatives of the Indian Banks Association and the Reserve Bank of India on the subject may be ascertained, in this regard.

10.95 In case the commercial banks are not willing to undertake this work for one reason or the other, we suggest that the services of Co-operative and Rural Banks with adequate branch network in the semi-urban and rural areas should be utilised for the purpose. In this context, we had examined whether a separate Institute for undertaking such functions can be established with branches spread over throughout the semi-urban and rural areas or whether the said functions be entrusted to a Centralised Service Centre/Issue House, which we had recommended in our Report on the 'Cost of Public Issues'. In our opinion, this would not be a feasible proposition presently, as the investment habits and wide-spread knowledge about industrial securities are yet to percolate in the semi-urban and rural areas and consequently the economies of scale and the expenses involved in setting up of branches at different places and staffing them would not justify such a course of action. The question of setting up of a separate Institute for the purpose or entrusting the functions to a Centralised Service Centre/Issue House proposed by us can be examined later when sufficient investment consciousness and investment habits are cultivated among the investing public in the semi-urban and rural areas.

#### (5) Investment advice and services

10.96 At the moment investment counselling is done mainly by some of the members of Stock Exchanges and independent investment advisers. The facilities available for making a scientific approach

in this regard leave much to be desired. There is an emergent need that the stockbrokers and others connected with the securities industry should develop the necessary expertise so as to offer investment guidance to the investors based on indepth study of balance sheets, annual accounts, past and future trends in profitability of different industries, Government policies, management and technological strength of different industries, etc. The role of the Stock Exchanges and the Stock brokers in this regard is enumerated as follows.

#### (i) Role of Stock Exchanges

10.97 Some Stock Exchanges are providing very valuable information to investors through their periodically updated directories and official year books that provide analysis of balance sheets and annual accounts as also brief write-ups about the companies. The Stock Exchanges also publish daily and fortnightly quotations which give information about fluctuations in prices, dates of books closure, settlement of accounts, dates when shares become ex-right, ex-bonus, ex-dividend working of companies, etc. A discerning reader with good background in financial analysis may find such information quite useful. But it needs to be appreciated that such information should be designed to serve effectively the needs of the common class of investors and the prices fixed for such publications should also be within their easy reach.

10.98 For providing independent and well studied advice to investors the Stock Exchanges and the proposed Council for Securities Industry should take upon themselves the responsibility of undertaking further indepth study in the areas in which initiative has already been taken and prepare necessary back-up research material. The information so gathered could be freely circulated among all the Stock Exchanges and at a subsidised price among the stockbrokers, sub-brokers, agents, etc. for distribution amongst their clients.

10.99 The Stock Exchanges should also establish separate 'guidance cells' in their secretariats for providing statistical and data services to the investors in the field of corporate performances.

#### (ii) Role of Stockbrokers

10.100 Different investors have different asset preferences and catering to their requirements is a job that needs to be attended to more carefully. While the proposed Council for Securities Industry would be the right agency to take upon itself the job of undertaking research and preparing useful material that would serve the basis for providing guidance/counselling to investors, the investment guidance could be provided more effectively by the stockbrokers and investment advisers. The main reason why the proposed Council for Securities Industry should prepare the basic material is that it is an effort that is subject to large scale economies. The very task of collecting vast amount of literature on various related aspects of the working of the listed companies, analysing the same meaningfully through professionally qualified staff and preparing suitable

guidance material is a job which can be rightly undertaken by a single authority. But investment counselling, after ascertaining investors' asset preferences, is a personal service which only the stockbrokers/investment advisers can provide more effectively. For discharging this responsibility properly, the stockbrokers will have to be imparted training in the art of counselling and other matters related to the servicing of the investing public.

#### (6) Protection to Investors

10.101 There is a definite need to instil the confidence in the investors from the semi-urban and rural areas that their interest would be adequately and well protected in the event of default by the

stockbrokers. In this context, as stated earlier in this Report and the recommendations made in the chapter on 'Code of Conduct', Customers' Protection Fund and Insurance Cover', we are of the opinion that the Customers' Protection Fund should be created for the purpose.

10.102 Moreover, we have earlier recommended that the members of the Stock Exchanges should take insurance covers for various specific contingencies. This would also, to some extent, protect the upcountry investors from losses and hardships which they may have to face in the event of their documents being lost in transit or by fire or in the event of fraudulent acts committed by the staff members or others associated with the stockbrokers, etc.





## METHODS FOR ACQUISITION, CONSTRUCTION OF THE PREMISES FOR STOCK EXCHANGE AND THE MANNER OF ITS FINANCING

11.1 At the outset, the Committee would like to state that the requirements of premises and methods of their acquisition and construction may vary in case of each Stock Exchange, depending upon location and availability of space, volume of anticipated business, growth in membership, availability of finance, etc. It would, therefore, be better to leave to each Stock Exchange to chalk out its own course of action in the matter. As such, the Committee would like to confine its observations, in this Report, to the broad aspects of the question, in general.

11.2 The Stock Exchanges, as they are organised to-day in India, are finding it increasingly difficult to handle growing volume of business that is taking place, especially since the beginning of 1980s. It is widely accepted that the overall quality of services provided by the Stock Exchanges and their members to the investment community has also deteriorated considerably. One of the important reasons for this sad state of affairs is the inadequate physical infrastructure, particularly, the office space needed by the Stock Exchanges themselves and by their members. Apart from this, even for organising the Stock Exchanges on modern and efficient lines, the Stock Exchanges should have additional floor space so that essential infrastructural facilities like computerised quotation boards and close inter-linkages among different Stock Exchanges, library facilities, research cells, trading rings, etc and required space for the existing and growing number of active members of the Stock Exchanges, over a period of time, are provided for.

11.3 It is also necessary that the Stock Exchanges should generally be located in central business area so that they are easily accessible to investing public, financial institutions who have large operations on the Stock Exchanges and banks who have large dealings with all those who operate on the Stock Exchanges. A convenient location for the Stock Exchanges would help in increasing investors' interest in industrial securities as they can approach their brokers easily and seek necessary investment advices from them frequently. They would also find it easier to accept and give deliveries of documents including transfer forms, share certificates, etc. in time and thus facilitate rapid growth in transaction on the Stock Exchanges.

### Existing Facilities

11.4 Some of the oldest Stock Exchanges in the country have their own buildings which are generally located in central business areas. Some of the

newer Stock Exchanges have preferred to hire space or house themselves in premises offered by Chambers of Commerce, Associations, etc. so as to remain in central business localities. While the newer Stock Exchanges are not at present facing serious constraints in regard to space for themselves and their member brokers in view of their limited requirements, the older and more active Stock Exchanges like those at Bombay, New Delhi and Calcutta are facing acute space problem. For example, although, the Bombay Stock Exchange has constructed its first multi-storeyed building, its space problem continues to remain acute and is unlikely to be solved satisfactorily until the next phase of its programme involving construction of another multi-storeyed building is completed. As regards Delhi Stock Exchange, not only the existing space is inadequate but the building of additional floor space at the existing location is reported to be difficult. Same is the case with the Calcutta Stock Exchange. As regards the new Stock Exchanges, the problem may not be that acute at the moment but as their operations increase rapidly they may either like to hire additional space or construct additional floor space at the existing locations. However, if this is not possible on account of limited adjacent land or non-availability of FSI, they may be expected to shift to new locations or to construct new premises of their own. Although the problems of space faced by different Stock Exchanges have, thus, peculiarities of their own and vary in the degree of seriousness at the moment, long term view shall have to be taken about their growing requirement of premises so that the growth in the volume of their operations is not restrained on account of limitation of floor space. Moreover, the number of active stock brokers (1650) is, at present, quite small for a large country like ours with fast growing volume of securities business. Since investors have to conduct their purchase/sale transactions in securities only through the members of the Stock Exchanges, the number of stockbrokers has to be increased periodically in line with the growth in volume of business and the number of investors. Apart from the existing members the new members also will have to be provided with adequate floor space for enabling them to service their clients efficiently. However, the space for available at present, to even the relatively small number of existing brokers at the major Stock Exchanges does not appear to be sufficient. Therefore, for this reason also, additional floor space will have to be provided by the Stock Exchanges. In fact, it would be appropriate to prepare a tentative blueprint of a long term plan for providing premises for the Stock Exchanges in the light of anticipated

growth in their operations and membership during the next decade or so.

11.5 While planning for space, the following points may have to be given due weightage :

- (i) Apart from the individual member brokers, there would be quite a few corporate members in the next 5 or 10 years whose requirements of space will have to be much larger than that of the individual members, depending, of course, upon the size of their operations. A view may have to be taken whether the Stock Exchanges need to provide the full space requirements of such corporate members within the premises of the Stock Exchanges or that they may be given only the core facilities at the Stock Exchanges and for their additional space requirement for their operations they are asked to arrange on their own. Depending upon their requirements of space, the total space required to be provided by the Stock Exchanges would increase correspondingly.
- (ii) The Stock Exchanges themselves would need much more space for undertaking new activities and for expanding some of the existing ones. Even a premier Stock Exchange like Bombay does not have a very good library to serve the needs of its members and the general investing public. It is desirable that all the Stock Exchanges should have well-equipped libraries that are housed in well laid out premises providing for reference and reading room facilities for members as well as for general investing public. In addition, the Stock Exchanges should also have space for creating advisory cells, computer facilities, lecture halls for providing training and refresher courses to their members and their staff and necessary research facilities for generating the counselling literature needed for the investors at large. The Stock Exchanges must also have a reasonably large trading hall, a clearing house, premises for the bank which provides the necessary banking facilities, canteen facilities for the members and their staff, a post office, visitors' gallery, etc. Given the fact that space requirements of different Stock Exchanges would differ, it would be rather difficult to provide a clear idea in this regard.
- (iii) As for the new Stock Exchanges, quantum of business and their resource position in the initial stages may not justify owning of premises. It may, therefore, be advisable for them to look for premises preferably on a rental basis with the help of the All India State level financial institutions, Reserve Bank of India, commercial banks, Chambers of Commerce and Trade Associations, etc.

## Role of Government

11.6 A Stock Exchange, is a vitally important institution which provides trading facilities not only in industrial securities but also in securities floated by State Governments, state level bodies, Port Trusts, municipal authorities as also a large number of securities floated regularly by the Central Government. It is, therefore, desirable that both the Central Government and the respective State Governments help the Stock Exchanges to resolve their space problems in the best possible manner. However, it should primarily be the concern of the State Government in whose territory the Stock Exchange is situated to extend the maximum possible help in the matter.

11.7 It is felt that the State Governments should accord preferential treatment to the Stock Exchanges and provide necessary land in central business localities. If they cannot provide additional land space at the existing location of older Stock Exchanges, they should at least consider granting them higher FSI at the existing locations. In case the existing locations prove to be too inadequate even after relaxation of the FSI, the State Governments should then consider allotting land at alternative locations which are not very far away from the central business localities.

## Finance

11.8 With the enhancement of the listing fees, membership fees and, turnover levy, as recommended in the earlier chapters, the revenues of the Stock Exchanges would no doubt increase considerably ; all the same, the Stock Exchanges would need large financial resources for meeting all the capital expenditure connected with construction of new premises or extension of existing ones. Sometimes, banks have shown willingness to provide finance to the Stock Exchanges for their new premises but the rate of interest thereon ranges anywhere between 17.5 per cent to 21 per cent. For an institution like a Stock Exchange which is not expected to be run on the commercial principle of profit maximisation, such interest rates on bank lending would be exorbitantly high. Therefore, adequate finance may have to be provided to the Stock Exchanges by some other agencies at reasonably concessional rates of interest. It may be mentioned in this context, that the investment institutions like the Unit Trust of India, the General Insurance Corporation of India and its subsidiaries and the Life Insurance Corporation of India are the major users of the facilities provided by the Stock Exchanges and have a vital stake in their efficient functioning, as these institutions deal, on a large scale, in industrial securities and some of them in securities issued by the State and Central Governments. In our opinion, the investment institutions should, therefore, consider favourably provision of long-term finance needed by the Stock Exchanges at reasonable rates. Such finance may be extended by them to the extent of 50 per cent to 70 per cent of the building cost of the Stock Exchanges so that the remaining part of the capital expenditure is met by the Stock Exchanges themselves out of their own resources and contributions

from the members by way of deposit against rents payable during the next 5 years or so. In this context, the Committee notes with satisfaction the creation of a separate fund by the Unit Trust of India and their willingness to provide finance to the Stock Exchanges at a reasonable rate of interest. Such a gesture on the part of the Unit Trust of India would remove the major cause of their worries in this area. The concerned Stock Exchanges who are in need of finance for the major items of capital expenditure like buildings, computerisation, etc. can, therefore, approach the Unit Trust of India for obtaining the required funds on mutually agreed terms and conditions.

### **The Problems of the Bombay Stock Exchange**

11.9 The Committee is well aware of the serious problems faced by the Bombay Stock Exchange with regard to its building matter. Although the construction of its new 28-storeyed building commenced in 1969, only the first phase of the building containing an area of about 2 lakh sq. ft. could be comp-

leted in 1983. The second phase of the building comprising an area of about 1.50 lakh sq. ft. is yet to commence. It is not clear as to when the work would be undertaken, as demolition of one of the existing buildings, a part of which is occupied by some who refuse to vacate the same for some reason or the other, is a condition precedent for the construction of the second phase of the building. While we would not like to deal at length with this matter, we would recommend that the financial institutions should come to the help of the Bombay Stock Exchange to salvage it from the deep financial crisis into which it has landed itself for reasons beyond its control. We would also like to suggest that some of the financial institutions who have occupied a major portion of its present building should examine sympathetically whether they can vacate, in course of time, some of the floors occupied by them in the Stock Exchange building to enable the Stock Exchange to cater to the expanding needs of its members and the investing public. If necessary, the Ministry of Finance, Government of India may use their good offices to help the Bombay Stock Exchange to resolve its problem.



## CHAPTER 12

### SUMMARY OF THE MAIN RECOMMENDATION

#### SECTION 1 : SUMMARY OF THE MAIN RECOMMENDATIONS ON THE ORGANISATION AND MANAGEMENT OF STOCK EXCHANGES (CHAPTER 3)

##### I. FORM OF ORGANISATION OF THE STOCK EXCHANGES

The Committee recommends that it would be appropriate to have a uniform model for the organisation of the Stock Exchanges in the country on the lines of the companies limited by guarantee without share under the provisions of the Companies Act, 1956.

Once a uniform model of organisation is adopted, all the Stock Exchanges should be required to have common Memorandum and Articles of Association. In this connection, it is suggested that the Memorandum and Articles of Association of Madras and Pune Stock Exchanges which are organisations limited by guarantee may be taken as a model with suitable modifications as may be required.

The Committee is of the opinion that besides regulating the working of the Stock Exchanges, it is also important to regulate the activities of all others associated with the Stock Exchanges. The Committee, therefore, recommends that either a separate legislation be enacted or comprehensive amendments to the Securities Contracts (Regulation) Act may be made providing for the incorporation and regulation of the Stock Exchanges and for regulating the activities of those concerned, directly or indirectly with the securities industry.

Pending amendments to the Securities Contracts (Regulation) Act or the enactment of a separate legislation, the Committee recommends that hereafter the Government should grant recognition only to such Stock Exchanges constituted as companies limited by guarantee and licensed under Section 25 of the Companies Act, 1956. Also, in respect of existing Stock Exchanges which are unincorporated associations of persons, they should switch over to the new form of corporate organisation by following the procedures laid down in the Companies Act, 1956. As regards the Stock Exchanges which are companies limited by shares, they should follow the procedure for reorganisation as laid down in Sections 391/394 of the Companies Act, 1956, by obtaining the approval of their members at a general meeting and also of the High Court for the reduction of capital under Sections 100 to 104 and thereafter seek the approval of the Central Government under Section 25 of the said Act. Where the existing Stock Exchanges are companies limited by guarantee but with share capital incorporated under the Companies Act, 1956, they should take suitable steps to get themselves licensed under Section 25 of the said Act.

With a view to expediting the reorganisation of the existing Stock Exchanges the Committee recommends that the Securities Contracts (Regulation) Act should be amended expeditiously so as to empower the Government to bring about the recommended changes in the organisational structure of the Stock Exchanges which are presently association of persons or company limited by shares, rather than wait for these Stock Exchanges to complete the formalities for reorganisation on their own volition.

(Para Nos. 3.7 to 3.22)

##### II. MANAGEMENT OF THE STOCK EXCHANGES

The Committee recommends that immediate steps should be taken by the Government to broaden the existing Governing Bodies of the Stock Exchanges to make them fully representative of various interests.

The Governing Body of each of the Stock Exchanges should consist of elected and non-elected members on a 50:50 basis not exceeding 18 in number, excluding the Chairman and the Managing Director. Additionally, the financial institutions should have a right to appoint their nominees not exceeding 2 in number on the Governing Body of any Stock Exchange which avails of financial assistance from them.

The Committee further recommends the following conditions for the elected Directors :

- (a) The elected Directors should be from amongst the existing members of the Stock Exchanges.
- (b) 1/3rd elected Directors should retire every year by rotation.
- (c) The elected Directors may have a maximum of 2 consecutive terms of 3 years and after a minimum break of one term, they may be eligible for re-election of further 2 terms of 3 years each. Thus no member can hold the Office of Director for a period exceeding 12 years in the aggregate.

The nominated members of the Governing Bodies should be nominated by the Government from the Government departments, development banks/institutions, investment institutions, the Reserve Bank of India, economists having necessary expertise in stock and capital markets, industrialists and professionals from recognised bodies such as Institute of Chartered Accountants of India, Institute of Costs & Works Accountants of India, Institute of Company Secretaries of India, Institute of Management, etc. The terms and conditions of services of such nominated members should be decided by the Government.

The nominated members should be adequately compensated by the Stock Exchanges.

The position of the President of the Stock Exchanges may be dispensed with. Instead there should be a Chairman of the Governing Body to be appointed by the Government of India.

As regards the appointment of Chairman of the Governing Body, the Committee recommends that a panel of 3 names of independent persons may be recommended by the Governing Body of the Stock Exchange concerned. In case, however the Government does not approve of any of the names on the panel suggested by the Governing Body for the Chairmanship, the Government may appoint any person of their choice in consultation with the Governing Body. Such a Chairman of the Governing Body should be an independent person not having any direct or indirect interests in the trading activities of the Stock Exchanges.

The tenure of the Office of the Chairman should be for a period of 5 years and he should be eligible for reappointment for only one additional term of 5 years.

The Committee recommends that there should also be a post of Vice-Chairman which may be filled up by way of election by the Governing Body from among the elected Directors.

Each of the Stock Exchanges should have a Managing Director who should possess the requisite expertise in the field and who should not have any direct or indirect dealings in industrial securities. The terms and conditions of service of such a Managing Director should be determined by the Government. The Managing Director should have a term of 5 years which may be further extended from time to time at the discretion of the Government but not beyond the age of 65.

The Stock Exchanges should also have specialised departments dealing with different aspects of their business activity.

In addition to the defaults committee, arbitration committee, etc. the Stock Exchanges must have at least 2 other committees, one for planning and development of securities business and the other for the purposes of audit. It is recommended that the Governing Body of the Stock Exchanges should co-opt eminent persons on such committees. The Committee also recommends that the defaults committee and arbitration committee should each be headed by an eminent independent Chairman.

The Governing Body of the Stock Exchanges should be vested with adequate power and authority to institute civil and criminal proceedings against the members and non-members for any breach or violation of any of the provisions of the Securities Contracts (Regulation) Act, Rules, directives etc. The Securities Contract (Regulation) Act, the Rules framed thereunder, etc. may be suitably amended.

(Para Nos. 3.23 to 3.40)

### III. OVERALL ADMINISTRATION, SUPERVISION AND CONTROL OF THE STOCK EXCHANGES IN THE COUNTRY

The Committee does not favour setting of a Commission on the lines of Securities and Exchange Commission as in USA.

The Committee recommends that an apex body called the Council for Securities Industry be established instead (The functions of the proposed Council have been enumerated in the Chapter).

The composition of the Governing Body of the Council for Securities Industry should be as under :

| Number of members | Mode of selection                                                                                                                                                                    |
|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4                 | Chairmen of the Stock Exchanges, at least one of whom should be a Chairman of a small Stock Exchange.                                                                                |
| 4                 | Independent members from Government officials, experts from the field of corporate finance, commerce, accountancy, management and law (not more than two from Government officials). |
| 2                 | One member each from investment and development finance institutions which would be contributing towards the initial capital of the Council for Securities Industry.                 |
| 10                |                                                                                                                                                                                      |

Additionally the Governing Body of the Council should be headed by a whole-time Chairman-cum-Managing Director.

The appointment, tenure of the Office, terms and conditions of service of the members of the Governing Body of the Council including its Chairman-cum-Managing Director may be determined by the Government.

The Council for Securities Industry should be a statutory body with adequate powers, embodied in the statute to enable it to function effectively.

The Council, to begin with, should have Regional Offices where the principal Stock Exchanges are situated. Later, if need be, Branch Offices could be established at other centres where the Stock Exchanges are situated.

The initial funding for the establishment of the proposed Council should be done by the financial institutions, particularly the investment institutions by way of subscription to its initial capital. Subsequent expenses of the Council can be met from the levy on the turnover of the Stock Exchanges, surcharge on the listing fees etc.

The strength of the Stock Exchange Division of the Ministry of Finance should be considerably increased and upgraded.

(Para Nos. 3.41 to 3.54)

## SECTION II : SUMMARY OF THE MAIN RECOMMENDATIONS ON THE MEMBERSHIP OF THE STOCK EXCHANGES (CHAPTER 4)

### Educational and Professional Qualifications

(i) The Committee recommends that for the present the minimum basic educational standard should be pegged at XIIth standard or equivalent. After 5 years or so, the question of raising the minimum educational standard to graduation could be examined.

(ii) The Committee further recommends establishment of a separate Institute designated as National Institute of Investment and Financial Analysts in the country. This Institute should be established on an All-India level on the lines of Institute of Chartered Accountants or Company Secretaries, etc. by the financial institutions, Universities or the Institutes of Management. The Institute can also offer a special diploma course of a years' duration for those seeking membership of the Stock Exchanges as also for the existing members, authorised assistants/clerks and for the persons working in the Stock Exchanges, investment and financial institutions.

(iii) The Committee has separately recommended the establishment of a Council for Securities Industry. The Committee is of the opinion that this Council, in collaboration with Institutes of Management or Institutes of Chartered Accountants/Company Secretaries of India or the Universities, should organise diploma course of a years' duration through the Stock Exchanges for those desiring the membership of Stock Exchanges.

Candidates seeking membership of the Stock Exchanges must as a pre-requisite qualify for the diploma offered either by the National Institute of Investment and Financial Analysts or by the Council for Securities Industry. The Committee also recommends that there should be no exceptions as regards the completion of this diploma course, for persons succeeding to the established business of a deceased or retiring member of the Stock Exchange.

(iv) With a view to professionalising the existing members, all Stock Exchanges must conduct, from time to time, part-time refresher course of 6 to 8 weeks' duration.

(v) The Council for Securities Industry should also organise induction courses periodically for sub-brokers licensed securities agents and licensed dealers for canvassing business for industrial securities.

(vi) Members of the Stock Exchanges and others associated with the working of the Stock Exchanges should have reasonable background in economics, corporate finance, taxation, etc. Further these persons must be reasonably conversant with the provisions of various Statutes, Securities Contracts (Regulation) Act, 1956, Securities Contracts (Regulation) Rules, 1957, Companies Act, 1956, Capital Issues (Control) Act, 1947, Income Tax Act, 1961, Mono-

polies Restrictive & Trade Practices Act, 1969, policies of financial institutions etc.

(Para Nos. 4.8 to 4.18)

### Experience and Practical Training in the Business

(i) In case of candidates desiring membership of the Stock Exchanges and who have passed at least XIIth standard, the minimum experience should be as under :

(a) three months in case of MBAs, Chartered Accountants, Cost Accountants, Company Secretaries or post-graduates in commerce or economics;

(b) Six months in case of others.

(ii) Other candidates who are presently working as authorised assistants/clerks or apprentice of a member who do not have the required minimum, educational qualifications but have qualified for the diploma/certificate course organised by the National Institute of Investment and Financial Analysts or the Council for Securities Industry, must undergo practical training for two years with a stock-broking firm.

(iii) Each Stock Exchange must have a panel of approved members who are in a position to impart adequate knowledge and training to the aspirants for membership.

(Para Nos. 4.19 to 4.22)

### Financial Solvency and Viability

#### (i) Security Deposit

The Committee recommends fixation of security deposits (for doing business only in non-specified shares) per member for different Stock Exchanges as under :

|                                    |          |
|------------------------------------|----------|
| Bombay Stock Exchange . . . . .    | 1,00,000 |
| Calcutta Stock Exchange . . . . .  | 75,000   |
| Delhi Stock Exchange . . . . .     | 75,000   |
| Madras Stock Exchange . . . . .    | 50,000   |
| Ahmedabad Stock Exchange . . . . . | 50,000   |
| Other Stock Exchanges . . . . .    | 25,000   |

Security deposits should be further stepped up by 50 percent if the member wants to do business in "specified shares". It is also recommended that such security deposits should preferably be taken in cash and only in exceptional cases, they should be taken in approved liquid securities with a margin of 25 per cent. However, in no event, the membership card or the share/s of the Stock Exchanges should be considered to be an approved security. Only such members who have paid the security deposit in full should

be permitted to conduct any business in industrial securities. However, in case of new members, the facility of payment of the security deposit in two instalments may be given in deserving cases with such restrictions as the Governing Body may impose.

The Stock Exchange authorities may, in their discretion, collect from any member additional security deposit.

(Para Nos. 4.26 to 4.28)

(ii) *System of Net Capital Requirements or Liquidity Margins*

The Committee feels that there should be a linkage between the volume of business and owned funds of a member in his business. It, therefore, recommends that in addition to security deposit as aforesaid, a system of 'net capital requirements' or 'liquidity margins' should be evolved by the Stock Exchange and limits fixed for each member in relation thereto, for doing separate types of business such as cash business, forward business, underwriting business, etc. Details of this scheme may be worked out separately by the Council for Securities Industry.

(Para No. 4.29)

(iii) *Annual Subscription*

Annual subscription for membership should be minimum of Rs. 2,500 per annum for smaller and new Stock Exchanges. In major Stock Exchanges the same should be at least Rs. 5,000 per annum.

(Para Nos. 4.30 & 4.31)

**Publicity by members**

The Committee is of the opinion that the members of the Stock Exchanges may be allowed to issue advertisements in any media, provided the advertisements are within the guidelines framed for the purpose. Besides, copies of all advertisements should be preserved by the members for three years as the same should be available for inspection whenever required by the Stock Exchange authorities.

(Para Nos. 4.32 to 4.34)

**OTHER ISSUES**

**Provision for admission to membership**

(i) In view of the changes suggested in the educational and professional qualifications, experience and training, present rule regarding election to the membership, being approved by the two-thirds of the votes cast of the meeting in the Governing Body would be redundant.

(ii) Candidate for membership should be asked to give references of two reputed persons, one of whom may be a member of the Governing Body or any other member having at least 7 years standing or a member under whom he has received his training.

(iii) Membership may be approved by a simple majority of the members of the Governing Body. In the event of the candidature being rejected by the

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Governing Body, the candidate shall have the right to appeal to the proposed Council for Securities Industry whose decision shall be final and binding.

(iv) The Committee is of the view that it would not be advisable to make financial institutions and commercial banks eligible for the membership of the Stock Exchanges.

(Para Nos. 4.35 to 4.37)

**Right of Nomination/Transfer of Shares**

(i) The Committee recommends that the membership should be always open to any person who is qualified, having adequate experience and has also qualified for a professional diploma indicated earlier in the Report.

(ii) At present, the entry into stockbroking business is very easy for members, close relatives, etc. There cannot be any objection to such persons being admitted as members. However, with a view to professionalising the membership of the Stock Exchanges, it is recommended that the norms of eligibility for membership in regard to educational qualifications, experience and practical training, etc. as recommended above, should also apply to those acquiring membership on a hereditary basis or through nomination.

(iii) With a view to allowing the heirs of a deceased member or the resigning member, the benefit of the goodwill of the business, it is recommended that 50 percent of the prevalent admission fee should be paid to the nominee/heir of the deceased member or resigning member as compensation. This facility should also be extended to the existing members as well. The Securities Contracts (Regulation) Act/ Rules may be suitably amended for the purpose.

(Para Nos. 4.38 to 4.44)

**Inactive Members**

(i) The Committee recommends that the provisions of the Securities Contracts (Regulation) Act/ Rules may be amended to enable the Governing Body of the Stock Exchanges to terminate memberships which are dormant for a period of one year or more.

(ii) The Committee further recommends that the Ministry of Finance or the proposed Council for Securities Industry should lay down norms defining the minimum amount of business (including subscription to new issues, buying and selling of scrips, underwriting, etc.) to be done by each member to remain in business. These norms should, however, vary from one Exchange to another and may be reviewed from time to time.

(iii) In the event of termination of inactive membership where the membership card is held by the heir/nominee of a deceased member or in the case of a member who has retired from active operations, in all such cases the card holder or the successor must be paid 50 percent of the admission fee prevalent at the time of termination.

(Para Nos. 4.45 & 4.46)



### Corporate Membership

The Committee is of the view that the companies may be allowed membership of the Stock Exchanges on the lines suggested by the Government provided:

- (a) The company is formed in compliance with Section 322 of the Companies Act, 1956.
- (b) All the Directors assume unlimited liability, and
- (c) A majority of the Directors are members of the Stock Exchanges and also shareholders of the corporate member.

(Para Nos. 4.47 to 4.49)

### Multiple Membership

(i) With a view to encouraging all the Stock Exchanges in the country and facilitating arbitrage transactions, interflow of information, etc. it is suggested that to begin with multiple membership may be permitted in major Stock Exchanges. A member of a minor Stock Exchange may, however, be permitted to be a member of a major Stock Exchange as well.

(ii) Members of Stock Exchanges should be encouraged to open branch offices at different places excluding centres where minor Stock Exchanges are situated.

(Para Nos. 4.50 & 4.51)

### Increase in Membership

The constitution of Stock Exchanges should be suitably amended so that the present inbuilt hurdles which prevent continuous increase in the membership of Stock Exchanges are removed. For the purpose, the Committee recommends that the existing Stock Exchanges should be reconstituted as companies limited by guarantee and that the Stock Exchanges to be established in future should also be similarly constituted. The Securities Contracts (Regulation) Act may be amended to give powers to the Government to direct the Stock Exchanges to increase their membership.

(Para No. 4.56)

### Specialist members

(i) The Committee recommends that a class of specialist members be created who would specialise in buying and selling of some securities, particularly the inactive ones, allotted to them on the Stock Exchanges.

(ii) These specialists should be allowed to keep inventory of securities in which they specialise. To augment their financial strength for the said purpose, Reserve Bank of India may be requested to permit Commercial banks to grant liberal advances, to such members on the strength of certificates issued by the Stock Exchange authorities. Also the financial institutions may be requested to give lines of credit to this class of specialists and evolve a suitable scheme of encouragement as is done in the case of new entrepreneurs.

(Para Nos. 4.57 to 4.62)

### Authorise Assistants/Clerks

(i) The members must be made fully responsible for any business transacted by the authorised assistants/clerks irrespective of any private understanding or arrangements amongst them.

(ii) All existing and future authorised assistants/clerks should be asked to place a security deposit as under :

| Centre                          | Amount<br>(Rs.) |
|---------------------------------|-----------------|
| Bombay . . . . .                | 10,000          |
| Delhi . . . . .                 | 7,500           |
| Calcutta . . . . .              | 7,500           |
| Ahmedabad . . . . .             | 7,500           |
| Madras . . . . .                | 5,000           |
| Other Stock Exchanges . . . . . | 2,500           |

In case the authorised assistants/clerks also deal with public and procure orders for the members, besides trading on the floor, they may be required to pay additional security deposit to the extent of 100 per cent of the aforesaid amounts.

(iii) Authorised assistants/clerks who are badge-holders should pay annual subscription to the Stock Exchanges as under :

| Centre                          | Amount<br>(Rs.) |
|---------------------------------|-----------------|
| Bombay . . . . .                | 500             |
| Delhi . . . . .                 | 250             |
| Calcutta . . . . .              | 250             |
| Ahmedabad . . . . .             | 250             |
| Madras . . . . .                | 250             |
| Other Stock Exchanges . . . . . | 100             |

(iv) Members of the Stock Exchanges should be required to take suitable insurance covers in respect of the acts and omissions of their authorised assistants/clerks.

(v) After 1987, all authorised assistants must qualify for a diploma/certificate course to be conducted by the Council for Securities Industry.

(Para Nos. 4.63 to 4.72)

### Sub-brokers

The dealing with the sub-brokers should be effectively regulated and controlled and they should be brought under the discipline of the Stock Exchanges. Further, the member brokers should be made fully responsible and accountable for the dealings and the acts and omissions of the sub-brokers attached to them.

(Para No. 4.73)

### Licensed Dealers

(i) Dealers in securities should be licensed from one of the recognised Stock Exchanges in or nearby their place.

(ii) The licensed dealers should be of sound financial means and should pay a security deposit of Rs. 25,000.

(iii) The licensed dealers must be required to undergo an induction programme of a fortnight or a month's duration within 6 months of their being licensed to act as a dealer. In addition, they should undergo such training programmes or pass such examinations conducted by the Stock Exchanges or the proposed Council for Securities Industry within a period of three years of their becoming dealers as may be prescribed. Exemptions may however be given in case of highly qualified licensed dealers.

(Para Nos. 4.74 & 4.75)

#### **Licensed Securities Agents**

In the opinion of the Committee it will be useful to have an additional class of licensed securities agents situated at places where there are no Stock Exchanges. The functions of these agents should only be to canvass new issues of industrial securities and to assist the investors in documentation relating to transfer of securities, filling up of application forms, consolidation of holding, etc. In this context, the Committee recommends that the agents of the Unit Trust of India, Life Insurance Corporation of India and General Insurance Corporation of India and its subsidiaries may be licensed for the purpose.

(Para No. 4.76)

#### **Gratuity Fund**

The Committee is of the opinion that the gratuity fund for the members may be established and every member whether existing or new or active or not, should be asked to contribute a certain minimum amount towards the fund. In the event of the demise of a member, a fixed sum may be paid to his family over and above the amount represented by voluntary contributions per member fixed by the

Body administering the fund, depending upon the period of membership of the deceased member.

(Para No. 4.77)

#### **Audit of the accounts of the members**

The Stock Exchange authority should undertake, whenever deemed necessary, audit and inspection of the books of accounts and documents of any member and "sauda" books of authorised assistants. For the above purpose, a special task force may be created by each of the Stock Exchanges and the reports thereof should be placed before their respective Governing Bodies at regular intervals. It is also suggested that the Stock Exchanges should establish a panel of outside auditors for the purpose.

(Para Nos. 4.78 to 4.80)

#### **Disputes amongst members of Stock Exchanges**

In the event of disputes or claims/counter-claims between members of different Stock Exchanges the same will be referred to the proposed Council for Securities Industry and its decision should be final and binding on the parties.

(Para No. 4.81)

#### **Other recommendations**

(i) It may be provided in the Securities Contracts (Regulation) Act that the pending orders of the clients on the books of a broker will be executed first before any order on account of the broker himself or on account of his partner or employee is executed unless the intention behind such an order is to earn commission only.

(ii) The contract note issued by a member must separately give the price at which the security is purchased/sold, time at which the purchase was put through and the brokerage charged. It must also be indicated therein, whether the broker is dealing with the client as a dealer or as a broker.

(Para Nos. 4.53 & 4.54)

### SECTION III : SUMMARY OF MAIN RECOMMENDATIONS ON THE LISTING OF INDUSTRIAL SECURITIES ON STOCK EXCHANGES (CHAPTER 5)

A company seeking enlistment on a Stock Exchange, at present, has to apply for the purpose to the regional Stock Exchange as well as to the other Stock Exchanges where it wants enlistment alongwith the prescribed documents. The procedure is not only time consuming but also involves considerable unnecessary expenditure for the companies. The companies seeking enlistment on more than one Stock Exchange may, therefore, approach only the regional Stock Exchange for approval of the listing application. For purpose of enlistment on other Stock Exchanges, the companies need to submit only a simplified listing application. Upon approval of the regional Stock Exchange, the companies would be automatically listed in the other Stock Exchanges where the applications have been made for enlistment.

The main listing application form, the simplified application form, the listing agreement and the practices adopted by the Stock Exchanges for grant of listing should be uniform for all the Stock Exchanges. In order to ensure, inter alia, proper scrutiny of the listing applications, all Stock Exchanges should have a qualified secretary as the secretary of the Exchange. The Stock Exchanges should not take more than 3 working days for admission of securities to dealings on the Exchange once the listing application is complete in all respects.

A guidance cell should be set up in every Stock Exchange and a uniform check-list containing standard set of norms required by the Stock Exchanges in respect of formalities to be completed by the companies regarding listing be prepared.

(Para No. 5.3)

The powers conferred on the Government under Section 21 of the Securities Contracts (Regulation) Act should be invoked to compel the unlisted companies to get their securities listed in the following cases :—

- (i) where the companies propose to raise term loans (excluding foreign currency loans) debentures from the financial institutions (all India and State level) or raise resources by way of issue of shares/debentures of Rs. 3 crores or more in the aggregate, outstanding any time, and
- (ii) the companies have a networth of more than Rs. 1 crore or have made profits (before tax) in at least three years out of the last five years. In case the companies had made losses in the last two years, such companies might either be exempted from the compulsory listing or they may be given more time for listing of their securities.

The Companies Act or the Securities Contracts (Regulation) Act may be amended suitably to ensure

compliance of these provisions. The existing bonus guidelines may be reviewed at least with regard to companies requiring to list their securities as per the aforesaid networth criterion having a small capital base but with large reserves, so as to permit them to issue bonus shares in the ratio exceeding 1:1.

Whenever such companies seek institutional finance, the institutions should disburse funds only after obtaining the necessary Board resolutions of the companies to list their securities within one year of disbursement of loans from the financial institutions.

(Para No. 5.4)

The minimum paid up capital of a company for eligibility for listing should be raised from the existing level of Rs. 20 lakhs to Rs. 50 lakhs. The Minimum paid up capital of non-banking financial companies coming under the purview of the RBI should be fixed at Rs. 1 crore for listing purposes.

(Para No. 5.5)

A listed company should be delisted after giving six months' notice if the number of public shareholders falls below five for every Rs. 1 lakh of capital offered to the public or if the public shareholding falls below 50 per cent of the public offer. These requirements will not be applicable if the infractions are due to the holdings of the public financial institutions.

(Para No. 5.6)

Any violations of the provisions of the listing agreement should be made an offence punishable by the Stock Exchanges by levy of fine by them directly under their Bye-laws or by instituting suitable proceedings in a Court of Law. In the later case, prior approval of the Government must be obtained by the Stock Exchange. Suitable provisions should be incorporated in the Securities Contracts (Regulation) Act in this regard.

(Para No. 5.7)

Annual listing fees payable by companies should be uniform as given below for all the Stock Exchanges :

| Size of Companies                                                       | Rupees |
|-------------------------------------------------------------------------|--------|
| Companies with paid-up share and/or Debenture capital, upto Rs. 1 crore | 3,000  |
| Above Rs. 1 crore and upto Rs. 5 crores                                 | 6,000  |
| Above Rs. 5 crores and upto Rs. 10 crores                               | 10,000 |
| Above Rs. 10 crores and upto Rs. 20 crores                              | 20,000 |
| Above Rs. 20 crores and upto Rs. 50 crores                              | 30,000 |
| Above Rs. 50 crores                                                     | 50,000 |
| Initial listing fees                                                    | 5,000  |

The scale of listing fees for Stock Exchanges other than the first two Stock Exchanges, including the regional Stock Exchange, should be 50 per cent of both initial and annual listing fees mentioned above.

The companies having a capital of Rs. 5 crores and above should be required to be listed on at least two Stock Exchanges, including the regional Stock Exchange. Further, all existing listed companies should statutorily be required to be listed compulsorily on the Stock Exchange of the State/area where the registered office or the main works/fixed assets of the company are situated.

(Para Nos 5.8 & 5.9)

All companies which raise capital through prospectus should statutorily be required to get their securities listed compulsorily provided their paid-up capital meets with the minimum requirements prescribed in this regard.

(Para No. 5.10)

The existing provisions in Clauses 19 and 20 of the listing agreement have to be amended suitably to make them foolproof to ensure that companies furnish timely and complete information regarding consideration and recommendation of bonus shares or right shares or declaration of dividend, to the Stock Exchanges so that there is no scope for misuse of such price sensitive information by anyone.

(Para No. 5.11)

Suitable provisions should be incorporated in the listing guidelines/consent issued by the Controller of Capital Issues to the effect that the promoters/management group of the companies should not sell/transfer/hypothecate their shares at least for a period of 3 years from the date of enlistment on the Stock Exchanges and that the companies concerned will make suitable endorsement to this effect on the share certificates issued to the promoters/management group of the companies.

(Para No. 5.12)

All listed companies should be required to furnish unaudited financial results on a half yearly/quarterly basis within two months of the expiry of the period, for the information of the public.

(Para No. 5.13)

Suitable guidelines for private placement of securities should be evolved for the protection of investors. Apart from certain information being furnished to the Government in the matter, the shares subscribed by the original promoters should not be transferable for a period of the first three years. This fact should be prominently superscribed on the share certificates.

(Para No. 5.14)

The feasibility of development of an unlisted securities market (U.S.M.) on the lines of such a market in the U.K. may be explored to enable medium and small sized companies which do not get their shares listed for one reason or the other to come into the listing fold.

(Para No. 5.15)

Companies having provisions in the Articles of Association which are not in tune with sound corporate practice such as some specified directors having powers of veto tantamounting to overruling the majority decisions of the Board should not be listed unless

the Articles of Association of these companies are suitably amended to ensure that the majority decision of the Boards of Directors shall always prevail in all matters relating to the affairs of the companies.

(Para No. 5.16)

The Committee feels that there should be free transferability of shares as a matter of principle in case of all listed companies. However, some problems may arise in companies. However, some problems may arise in curtailing the right of the Board of Directors of companies to refuse transfer of shares. Nevertheless, the Board of Directors of a listed company should not refuse to register the transfer of shares to the nominal value of Rs. 10,000 subject to the condition that the total holdings of the transferee either individually or jointly shall not exceed the nominal value of Rs. 25,000. The Committee is, however, glad to note that the Securities Contracts (Regulation) Act has since been amended providing for free transferability of listed securities subject to adequate safeguards against undesirable take over-bids or destabilisation of managements. The amendment also provides that in case a company wishes to refuse transfer of securities on the ground that any requirement under law has not been complied with, it has to notify the transferor and transferee of the same within two months from the date of lodgement of the instrument of transfer. In other cases, the company will have to make a reference to the Company Law Board and act according to the directions of the Board.

(Para No. 5.17)

The Stock Exchanges should bring out an updated brochure on matters relating to listing. The Stock Exchanges should make an annual review of the compliance of the provisions of the listing agreement, publicise the names of the companies which have not complied with these requirements and submit a report to the Government in this regard.

(Para No. 5.18)

With a view to minimising the cost of servicing the shareholders it is suggested that the minimum lot of transfer and sub-division corresponding to the market unit of trading should be stipulated.

(Para No. 5.19)

Companies must be required to pay interest on the amount to be refunded at the rate of 15 per cent per annum from the expiry of ten weeks from the date of closure of the subscription list till the actual date of posting of the refund order.

(Para No. 5.20)

**Section 73 of the Companies Act, 1956 may be** amended empowering the regional Stock Exchanges to extend the period for admitting the securities of the company for dealing beyond ten weeks from the date of closure of the subscription list in suitable cases on merits.

(Para No. 5.21)

The listing agreement may also be amended to provide for notification to the Stock Exchanges any acquisition or disposition by the company or by its subsidiary of shares of another company resulting in such

company becoming or ceasing to be a subsidiary company, delivering to the Stock Exchanges copies of the Chairman's address or other announcements, etc.

(Para No. 5.22)

Rule 19(2)(a)(iv) of the Securities Contracts (Regulation) Rules relating to forfeiture of unclaimed dividends may be amended so as to bring it in consonance with the provisions of Section 205A of the Companies Act, 1956.

(Para No. 5.23)

Rule 19(2)(b) of the Securities Contracts (Regulation) Rules may be amended to provide obtaining approval of the Government under the said rule only

by the regional Stock Exchange, which should automatically apply to the other Stock Exchanges where the securities of the company are proposed to be enlisted.

(Para No. 5.24)

Whenever bonus or right shares are issued by a company it should as far as possible be done in such proportions that the issue of fractional certificates is reduced to the minimum. Even the residual fractional certificates required to be issued to the shareholders need not be issued. Instead they may be paid the proportionate amount in cash.

(Para No. 5.25)



## SECTION IV : SUMMARY OF THE MAIN RECOMMENDATIONS ON THE MEASURES TO REDUCE THE COST OF PUBLIC ISSUES OF CAPITAL (CHAPTER 6)

The financial resources which are expected to be mobilised, through the channel of the new issue market would reach a level of at least Rs. 5000 crores per annum in the next few years. Recognising the vital need for minimizing the cost of raising these resources the Committee has made the main recommendations as under :

### 1: MANDATORY COSTS :

#### 1. Underwriting and Brokerage

The Committee is of the view that there is a need to rationalise the charges payable towards underwriting commission and brokerage and making the same consistent with the need to ensure that resource mobilisation through the medium of the Stock Exchanges is not adversely affected.

(Para No. 6.10)

#### A. Underwriting

(i) Whenever a company makes a public issue of securities at a premium of 25 per cent or more no underwriting arrangements should be permitted;

(Para No. 6.27)

(ii) In respect of public issue of securities by existing companies which have earned net profits in any 3 out of last 5 years or where the premium is less than 25 per cent of the face value, the underwriting arrangements should be optional to the companies concerned;

(Para No. 6.27)

(iii) In such and other cases the Controller of Capital Issues/All India financial institutions should use his/their discretion to decide about the extent of underwriting to be permitted to a company in view of the size of the issue, nature of the industry, background of the promoters, anticipated response of the investing public, etc.

(Para No. 6.27)

(iv) There may be cases where the projects are vetted by the financial institutions and they are agreeable to provide financial assistance by way of term loans and/or underwriting of the issues. Even in such cases, there may be unfilled gaps of underwriting of the issues. If the financial institutions agree to provide standby arrangements to take-up unsubscribed portion of an issue in the event of its undersubscription there may not be any need for underwriting arrangements. The financial institutions, if necessary, should put in their applications on the last day of the closure of the issue, in case the minimum public subscription has not been received by then. This would ensure compliance with the minimum subscription requirement under Section 69 of the Companies Act, 1956.

(Para No. 6.28)

(v) Underwriting commission on equity shares should be reduced from the existing rate of 3 per cent

to 2.5 per cent. Further, there should not be any distinction between the amounts devolving on the underwriters and amounts subscribed by the public;

(Para No. 6.31)

(vi) Underwriting commission payable to an individual underwriter for preference shares, convertible and non-convertible debentures should be at the following rates;

|                                             | On amounts<br>devolving on the<br>Underwriter | On amounts<br>subscribed by<br>the public |
|---------------------------------------------|-----------------------------------------------|-------------------------------------------|
| (a) For amounts upto<br>Rs. 5 lakhs         | 2.5%                                          | 1.5%                                      |
| (b) For amounts in excess<br>of Rs. 5 lakhs | 2%                                            | 1%                                        |

(vii) It may be clarified by way of circular/notification by the Controller of Capital Issues that the rates of underwriting commission fixed by him are the ceiling rates, within which any company is free to negotiate the same with the underwriters;

(viii) Underwriting commission should not be payable on the amounts taken up by the promoters' group, employees, directors, their friends and business associates; or by the depositors and the debentureholders of the companies in case of preferential allotment;

(Para No. 6.31)

(ix) In the case of equity issues upto Rs. 1 crore, the financial institutions could consider taking up the entire issues on a consortium basis, so that the smaller new companies may not have to go to the market for those issues, if they so desire. The institutions may also, at their discretion, consider taking-up equity issues above Rs. 1 crore. Later, when the companies reach the stage of profitability, these issues may be off-loaded by the institutions to the public in a manner which does not destabilise the existing management. For this purpose, the financial institutions be exempted for complying with the public issue formalities and when they offload the shares of such companies to the public, the benefit of Section 80 CC of the Income Tax Act, 1961 as available to the public at present in respect of equity issues of the new companies, should continue to be extended to the investing public for such issues. This recommendation is made taking into consideration the fact that the initial taking up of the entire issue by the institutions is a mere postponement of the issue to the public and does not tantamount to a public offer by itself;

(Para Nos. 6.32 & 6.33)

According to the Committee, a better course, however, may be to establish a separate institution by the consortium of financial institutions, banks, State Industrial Development Corporations etc., to take up the new issues of capital made by the non-Monopolies Restrictive Trade Practices and non-Foreign Exchange (Regulation) Act Companies;

(Para No. 6.34)

### B. Brokerage

(i) Brokerage rates applicable to all types of public issues of industrial securities should be fixed at 1.5 per cent irrespective whether the issue is underwritten or not ;

(Para No. 6.38)

(ii) It should be clarified by the Controller of Capital Issues by way of circular notification that the mailing cost and other out of pocket expenses should be borne by the brokers and no separate reimbursement of the same should be done by the companies. A clause to this effect must be included in the agreement to be entered into between the broker and the company;

(Para No. 6.39)

(iii) The listed companies be allowed to pay brokerage on private placement of capital, by whatever name it is called, @0.5 per cent only. It should be clarified by a circular that the cost of public issue includes the cost of private placement of issues, if they are out of public issues sanctioned by the Controller of Capital Issues ,

(Para Nos. 6.40 & 6.41)

(iv) Brokerage in case of public issue of capital or in case of private placement out of such public issue should not be payable in respect of promoters amounts taken up by the directors, their friends, business associates, the employees, depositors and debentureholders of the companies in case of preferential allotment and the rights issues taken up or renounced by the existing shareholders or the debentureholders. Unless they are offered to the public no brokerage should however, be paid on the amounts taken up by or placed with the financial institutions/banks out of the right issues offered to the public ;

(Para No. 6.40)

(v) Brokerage should not be paid when the applications are made by the financial institutions/banks against their underwriting commitments or on the amounts devolving on them as underwriters consequent to undersubscription of the issues. This also applies in case of the right issues offered to the public and underwritten by the institutions/banks;

(Para No. 6.42)

(vi) The licensed securities agents which may be appointed to canvass the public issues of capital may also be paid a brokerage of 1.50 per cent.

(Para No. 6.43)

### 2. Fees of the Managers to the Issue

The companies should be free to appoint one or more agencies as Managers to the issue but the aggregate amount payable as fees to such persons should not exceed the following limits :

(a) For issues upto Rs. 5 crores : 0.5 per cent

(b) For excess over Rs. 5 crores : 0.25 per cent

Further, managers to the issue should not be paid any fees in respect of the following :

(a) Amounts agreed to be taken by the financial institutions and the amounts devolving on the financial institutions as investors/underwriters.

(b) Amounts taken up by promoters, employees, directors, their friends and business associates, depositors, debentureholders in case of preferential allotment.

(c) On amounts subscribed on rights basis.

(d) In the case of rights issues offered to the public, on the amounts underwritten or taken up by or placed with the financial institutions and banks.

(Para Nos. 6.44 and 6.45)

### 3. Official Brokers

Provision regarding compulsory appointment of official brokers to the issue from each of the Stock Exchanges should be deleted from the listing agreements between the Stock Exchanges and the companies.

(Para No. 6.46)

### 4. Statutory Press Announcement

Statutory press announcements released in the newspapers should not exceed half a page.

(Para No. 6.47)

### 5. Listing Fees

The Committee does not see much scope in reducing the expenses related to the listing fees.

(Para No. 6.48)

## II. VARIABLE COSTS

### 1. Printing and distribution cost in respect of prospectuses & application forms

(i) Given the limited practical utility of the prospectus in its present form from the point of view of the investor and the cost involved in its printing and distribution, it is recommended that Section 56 of the Companies Act, 1956 requiring every application to be accompanied by a prospectus may be amended and the companies may be allowed to issue an application form giving the main highlights of the issue as duly approved by the Controller of Capital Issues/financial institutions/Stock Exchanges. However, a copy of the prospectus, as required to be issued at present, may be made available to any investor on demand from the offices of the company concerned, Stock Exchanges, underwriters, managers to the issue, bankers to the issue, etc;

(Para Nos. 6.50 and 6.51)



(ii) The format, size and the contents of the prospectus itself should be simplified by incorporating only the vitally required details which are not otherwise available in the Memorandum and Articles of Association, application form of a company, etc. A suitable statement be included in the prospectus and the application form to the effect that the company has complied with the statutory requirements.

(Para No. 6.52)

(iii) The free supply of application forms and prospectuses should be restricted as under :

- (a) The members of the Stock Exchanges should be given 100 application forms and prospectuses each for issue upto Rs. 1 crore and 200 application forms and prospectuses each for issues above Rs. 1 crore;
- (b) Underwriters should be given, if demanded, 1000 application forms and prospectuses for every Rs. 1 lakh of capital underwritten ;
- (c) The managers to the issue and each of the Stock Exchanges should be given 500 application forms and prospectuses.

(Para No. 6.54)

(iv) For additional supply of application forms and prospectuses, over and above the free quota as enumerated above, the same should be supplied on payment of actual cost not exceeding 25 ps. per application form and Re. 1 per prospectus and the company should keep a proper record thereof;

(Para No. 6.55)

(v) All agencies concerned with the marketing of the public issue must place firm orders for the supply of application forms and prospectuses with the company sufficiently in advance of the opening of public issue ;

(Para No. 6.56)

(vi) The free quota of application forms and prospectuses to be supplied by the companies should be reduced as under after the amendment of Section 56 of the Companies Act, 1956 :

| Category                           | Size of the Public Issue | Quantity          |              |
|------------------------------------|--------------------------|-------------------|--------------|
|                                    |                          | Application forms | Prospectuses |
| (i) Members of the Stock Exchanges | (a) Upto Rs. 1 crore     | 100               | 10           |
|                                    | (b) Above Rs. 1 crore    | 200               | 20           |
| (ii) Underwriters                  | Any size                 | 1000**            | 50**         |
| (iii) Managers to the issue        | Any size                 | 500               | 50           |
| (iv) Stock Exchanges               |                          | 500               | 50           |

\*\*For every Rs. 1 lakh of capital underwritten, if demanded.

(Para No. 6.57)

## 2. Advertisement and Publicity

(i) The provisions of the listing requirements need to be re-examined with a view to imposing restrictions

in respect of the number of advertisements given in the newspapers for the benefit of the investors, the type of newspapers in which the advertisements should be released, the size of the advertisement, etc.

(ii) There is a need for discipline in respect of expenditure incurred on account of the brokers and investors' conferences in posh hotels at metropolitan cities. It would be more useful and productive if such conferences are organised in semi-urban and rural areas to evoke wider investors' interest and response.

(iii) Expenses being incurred by the companies to mobilise non-resident savings being rather high, such expenses need to be controlled by the companies concerned.

(Para Nos. 6.58 to 6.60)

## 3. Expenses of Registrar to the Issue

Proper planning, better co-ordination, close monitoring and follow-up between the company or the agencies involved with the collecting bankers would help reduce delays which in turn would reduce incidental costs of raising capital.

(Para No. 6.61)

### (a) Centres for acceptance

(i) In respect of public issues of securities not exceeding Rs. 5 crores the centres for acceptance should be all the recognised Stock Exchanges and the prescribed centres in the State where the regional Stock Exchange is situated and the centres in the State where the nearest major Stock Exchange is situated.

(ii) In respect of public issue of securities exceeding Rs. 5 crores, the centres for acceptance of applications should be all the recognised Stock Exchange centres and all the centres prescribed by the Government.

(Para No. 6.61)

### (b) Minimum Subscription/Allotment

The applications for securities be invited from the public for a minimum amount of Rs. 1000 (100 shares of Rs. 10 each or 10 shares/debentures of Rs. 100 each) with a minimum allotment of 100 shares of Rs. 10 or 10 shares/debentures of Rs. 100 each.

(Para Nos. 6.62 & 6.63)

### (c) Adjustment of excess application money/number of calls

The companies may be permitted to adjust excess application money at the time of allotment and if no such excess application money is available, call money notices for the balance amount be allowed to be issued at the time of allotment. Further, the companies should also be permitted to invite application money at 50 per cent or 100 per cent of the issue price at their discretion.

(Para No. 6.64)

### (d) Minimum offer period

For minimising workload and expenses involved in heavy oversubscription, the subscription list should

preferably be allowed to be closed at the end of the first day of the opening of the issues in case the same is over-subscribed by that day. However, to begin with, the minimum period to keep the subscription list open be reduced from the present level of 3 days to 2 days.

(Para No. 6.65)

*(e) Despatch of instruments/documents*

The companies should despatch instruments/documents by means of "Recorded Delivery" instead of "Registered Post". However, with the implementation of the suggestion above, there may perhaps be an increase in the instances of instruments/documents being lost in transit. The companies should, therefore, re-examine their procedures for the issue of duplicate shares/debentures certificates and/or any other instruments/documents to simplify them to avoid inconvenience to the investors.

(Para No. 6.66)

*(f) Intimation of basis of allotment*

The basis of allotment of the issue need not be intimated to the applicants and it should suffice if the companies publish the same in a widely circulated newspaper.

(Para No. 6.67)

*(g) Centralised servicing centre/issue house*

The Committee is of the opinion that the Government should examine, as early as possible, the setting up of a centralised servicing centre/issue House by the financial institutions and investment institutions in collaboration with the commercial banks and/or Stock Exchanges. Such an Issue House/servicing centre should have branches at important centres in the country and should act as registrar to the issues, share transfer agents and trustees for the securities.

(Para No. 6.68)

**4. Measures to minimise delays in processing of applications and realisation of application moneys**

(i) The Committee recommends that the application moneys should be collected only through the prepaid instruments like demand drafts, postal orders or a new type of an instrument called "security cheques" or even cash. With this system the company would be able to draw out a list of successful allottees without encashing the application moneys received from the applicants. The application moneys received in respect of successful allottees alone should be encashed. The unsuccessful applicants should be returned the financial instruments tendered by them as their application money. However, in case of partial allotment or in the case where application money has been given by way of cash, the present procedure of refund order should be continued. To implement the above proposal, suitable amendments to Sections 69 and 73 of the Companies Act, 1956 may be made, if necessary.

(ii) In addition to the introduction of the system of payment of application moneys through pre paid instruments, the Committee also recommends modification in the present format of the application form. With the proposed modification in the application form, the companies would be in a position to expedite processing of the applications received without waiting for the collection of the application moneys received in respect of all applications tendered at various branches of the receiving bankers. The new procedures would facilitate quick processing, easy reconciliation of applications and moneys received, early allotment of securities and expeditious despatch of refunds to the unsuccessful applicants.

(Para Nos. 6.72 to 6.74)

**III. FIXATION OF OVERALL CEILING ON THE COST OF PUBLIC ISSUES**

The Committee realises that there are a number of variable and imponderable factors which come in the way of evolving a clearcut formula for fixing ideal standard norms for the overall expenses to be incurred by the companies in respect of their public issues. All the same in the larger public interest, the Committee recommends the following overall ceilings on the amount of expenditure incurred by the companies in respect of their public issues of capital :

| Particulars/size of the issue        | Limits of the cost   |
|--------------------------------------|----------------------|
| (a) Equity & Convertible Debentures: |                      |
| — Upto Rs. 5 crores                  | Mandatory costs + 5% |
| — In excess of Rs. 5 crores          | Mandatory costs + 2% |
| (b) Non-Convertible Debentures:      |                      |
| — Upto Rs. 5 crores                  | Mandatory costs + 2% |
| — In excess of Rs. 5 crores          | Mandatory costs + 1% |

Expenditures incurred beyond the above limits should not be allowed for deduction for the purposes of taxation. This would require suitable amendments to the relevant provisions of the Income Tax Act, 1961.

The auditors of the companies concerned should be required to qualify the reports suitably if the cost of public issues of the concerned companies exceeds the overall limits as mentioned above.

The above limits could be reviewed and revised suitably from time to time in the light of prevailing conditions.

It has to be emphasised that every agency connected with the public issue has an equal responsibility in the matter and should extend maximum co-operation to the companies concerned to minimise the cost of public issues. Of course, the companies should be conscious about the need to minimise the cost of public issues. In the ultimate analysis, there is no substitute, or for that matter there cannot be any, for self restraint, self-discipline, consciousness on the part of all concerned with the public issues about the need to minimise such costs.

(Para Nos. 6.75 to 6.77)

## SECTION V : SUMMARY OF THE MAIN RECOMMENDATIONS RELATING TO TRADING IN SECURITIES AND MEASURES TO ENSURE SMOOTH FUNCTIONING OF THE STOCK EXCHANGES (CHAPER 7)

### Trading for settlement business

Trading for settlement business is necessary for the purpose of ensuring liquidity and price continuity of securities on the Stock Exchanges. However, to ensure stability in the Stock Exchanges, it is necessary that such trading should be allowed in a regulated manner. In this context, the Committee is of the opinion that the ban on trading for the settlement in general should continue and the trading for settlement business in certain specified shares which is presently permitted should be properly regulated and controlled.

(Para No. 7.87)

### Disclosures by the investors

(i) Every investor must disclose, at the time of placing order for purchase or sale of shares, whether he wants to take or give deliveries of shares or is interested only in trading for settlement business.

(ii) The stockbrokers will be required to issue two types of contracts—one for cash and the other for settlement transactions, the contracts issued being in distinct and different colours for easy identification. This system will assist the genuine investor and would facilitate the Stock Exchange authorities to know the volume of transactions on a cash or a carry over basis, which in turn would enable them to take timely measures to deal with emerging situations.

(Para No. 7.89)

### Specified shares

(i) The criteria for inclusion of scrips in the list of specified shares should be made more rigid and uniform for all Stock Exchanges.

(ii) The list of specified shares should be under constant review and periodically revised by excluding the dormant scrips and by including some of the active scrips from the non-specified group.

(iii) There is no justification for preventing any scrip from being included in the specified group on more than one Stock Exchange. In fact, the Committee is of the opinion that the proposed Council for Securities Industry should finalise a common list of specified shares and should frame suitable guidelines and procedures which would be applicable to all the Stock Exchanges for trading in such specified shares with a view to ensuring that transactions in specified shares are effected in a regulated and controlled manner. Such a step would actively encourage inter-market arbitrage business, paying the way to a national securities market.

(Para No. 7.88)

### Financial Resources of the investor

(i) Any one who wants to buy or sell shares of listed companies on the Stock Exchanges must have sufficient

financial resources to back up his business commitments. Every investor, must therefore, pay front-end margins before buying or selling equity shares in the markets. Front-end margins should be applicable both in respect of transactions on a cash basis and a settlement trading basis.

(ii) In case of cash transactions, every individual investor must pay 25 per cent of the contract value at the time of placing order for purchase as front-end margin. In the case of sale of securities, on a cash basis, deliveries should be effected by the individual investors within 7 to 10 days of placing the order for sale. In the case of non-fulfilment of the stipulations, suitable penalties should be imposed on the investor concerned.

(iii) If an investor wants to buy or sell specified shares for trading for settlement business he should pay front-end margin money of minimum 20 per cent at the time of placing the order for purchase or sale of shares. This can be stepped up further if the situation so warrants.

(iv) The front-end margin money collected should be deposited with the Stock Exchanges by the stockbrokers immediately.

(v) An investor must be properly introduced to the stockbroker. If an investor sells or purchases equity shares of more than Rs. 10,000 face value for settlement trading, he should have a satisfactory reference from a scheduled bank.

(Para Nos. 7.90 & 7.91)

### No dealings with defaulting clients

A stockbroker should not deal with any outside party which has failed to honour its business commitments with any other stockbroker of any Stock Exchange. For this purpose, the names of defaulting clients should be reported by the member to the Stock Exchange authorities immediately.

(Para No. 7.92)

### Minimum liquidity margin

(i) To ensure smooth and healthy functioning of the Stock Exchanges and to prevent excessive speculation, the Committee recommends that the volume of business and trading of every member stockbroker should be linked to his financial resources. It is further recommended for the purpose that a system of minimum liquidity margins should be introduced whereby each stockbroker would be required to maintain sufficient financial stake in the business and his volume of activity in different fields, such as business in securities, underwriting etc., would be related to his financial resources. The proposed Council for the Securities Industry shall frame a suitable scheme on

the lines of the broad outline of the scheme given in the annexure to the Report:

(Para No. 7.93)

**Disclosure of information by the stockholders/Stock Exchange authorities.**

(i) Every stockbroker must, report to the Stock Exchange, on a daily basis, scripwise list of names of parties, who have purchased or sold shares of the market value of more than Rs. 1 Lakh in cash or settlement basis.

(ii) All Stock Exchanges should publish, on a weekly basis, in leading newspapers, information regarding volume of business in specified shares and non-specified securities for the information of the general investing public.

(Para Nos. 7.94 and 7.95)

**Distinction between contracts for trading for settlement business and contracts for genuine investments.**

There should be a distinction between contracts for trading for settlement business and contracts for genuine investments. This calls for amendments to the present Bye-laws and Regulations for making specific provisions for delivery and payment of shares. At no time, any investor should be made to suffer in receiving deliveries of shares against payment or sale proceeds of shares delivered by him.

(Para No. 7.96)

**Carry-over of transactions**

(i) The Committee recommends that the carry-over of transactions should be allowed for not more than 4 settlement periods of 14 days' duration each with the aggregate time span of 60 days. If the delivery of shares is not completed within the stipulated time and at the contracted price, the member broker should be deemed to have defaulted and the shares should be acquired by auction and delivered to the investor. In such cases, the difference in price should be recovered from the defaulting member. Strict penalties should be provided in the Bye-laws and Regulations against carry-over of transactions of cash scrips.

(ii) Every member must settle his accounts and square up his positions once in 60 days and a certified statement to this effect must filed by the member with the Stock Exchange authorities.

(Para Nos. 7.97 to 7.99)

**Trading hours**

The Committee is of the opinion that the trading hours of all the Stock Exchanges should be increased to 5 hours a day, in a phased manner, and there should be separate sessions for cash business and for settlement business.

(Para No. 7.100)

**Outside finance**

(i) The stockbrokers should not be allowed to arrange for finance from outside by offering shares

under purchase with blank transfers as security for speculative trading on their own account.

(ii) At the end of each settlement period, every stockbroker should submit to the Stock Exchange authorities, details regarding the quantum of monies he has borrowed from outside and the rate of interest at which the money has been raised by him.

(iii) Non-banking finances used for 'badla' and speculative purposes by non-member operators should be brought within the purview of Usurious Loans Act or Money Lender's Act or should be regulated by the Reserve Bank of India as is done in case of fixed deposits, operations of chit funds, etc.

(iv) It may be prescribed that necessary returns detailing the names of the parties concerned, quantum of moneys involved, rate of interest at which money is borrowed, securities offered etc., are filed with the Stock Exchanges and the Reserve Bank of India, in case of large deliveries exceeding Rs. 5 lacs in market value, given or taken through the clearing house or through the stockbrokers direct.

(Para No. 7.101)

**Option trading and Kerb trading**

(i) The ban on option trading should be continued and persons indulging in this activity should not be allowed to enter the Stock Exchange premises during the trading hours.

(ii) Option trading is a cognizable offence punishable with an imprisonment of 2 years and expulsion from the membership of the Stock Exchange. This should specifically be brought to the notice of the stockbrokers.

(iii) A vigilance squad should be established in each of the Stock Exchanges to detect the members who indulge in Option and Kerb trading.

(iv) Stock Exchanges should ensure that transactions done in Kerb do not get recorded, on the next day or later, officially.

(v) Orders placed by an investor after the close of official trading hours should be accumulated by the stockbroker and executed during the trading session on the next working day.

(Para Nos. 7.102 and 7.103)

**Closing Quotations**

No closing quotation of any scrip should be recorded officially if it is put in the last fifteen minutes unless it is for more than 250 shares of Rs. 10/- each or 25 shares of Rs. 100/- each.

(Para No. 7.104)

**Spread in two-way quotations**

The spread in the two-way quotations of equity shares should be reasonable and be regulated by the proposed Council for Securities Industry.

(Para No. 7.105)

### Undesirable activities

Any activity on the part of the members of the Stock Exchanges which is undesirable and which would adversely affect the general health of the stock markets and the orderly functioning thereof, such as manipulation, false trading, market rigging, insider trading, Kerb trading, etc., should be treated as civil and criminal offences punishable with heavy fines and imprisonment upto 5 years. For this purpose, the Securities Contracts (Regulation) Act may be amended suitably.

(Para No. 7.106)

### Disclosure of information by companies

To prevent speculation on the basis of rumours regarding the current functioning of the companies, it should be provided in the listing agreement that all companies, must, atleast, publish their unaudited working results on a half-yearly basis and on a quarterly basis, if their paid up capital is Rs. 10 crores or more. Also, any price sensitive information should always be included in the agenda of the Board Meetings of the companies which is required to be circulated to the Stock Exchanges well in advance.

(Para No. 7.107)

### Insider Trading

Insider trading must be made a punishable offence with severe penalties or fines or even imprisonment. Suitable provisions may be incorporated in the Securities Contracts (Regulation) Act on the lines of a draft annexed to this Report.

(Para No. 7.108)

### Trading in securities before listing

(i) The time span between the offer of shares to the public and grant of listing should be reduced. The Committee is of the view that it would be better if provisional listing is granted to facilitate official trading. It should be examined whether trading in securities can be permitted from the date of issue of the prospectus. The Bye-Laws should be amended to permit such trading with suitable regulations.

(ii) The regulations framed for the purpose will be applicable to all the persons in charge of management and their merchant bankers/managers to the issue.

(Para No. 7.109)

### System of margins

(i) Besides introducing a system of front-end margins as suggested earlier, the Committee recommends that a carry-over margin should be levied uniformly at the rate of 10 per cent. However, if the price of a scrip increases by more than 5 per cent during a settlement period and by more than 10 per cent as compared to the previous making-up price of the settlement preceding the current one, the carry-over margin should then be 20 per cent. These margins can be stepped up further when circumstances so warrant.

(ii) Carry-over margin money should be collected only in cash.

(Para No. 7.110)

### Operation of the system of margins for reasonable periods

All the margins collected from the members should be retained by the Stock Exchanges till the time the actual outstanding transactions for which the margins have been paid get settled or alternatively the technical position of the market becomes stable, with the discretion vested with the Managing Director of the Stock Exchanges. Once the margins are imposed, they should be in operation for a reasonable duration so that their impact is not allowed to be whittled down by fresh bouts of speculative activity. Even withdrawal of margins, when decided upon, should be permitted in a phased manner.

(Para No. 7.111)

### Disclosure of information on transactions by the stockbrokers

With suitable amendments in the Bye-Laws and Regulations of the Stock Exchanges, it should be made obligatory on the part of the stockbrokers to make full disclosure of the information regarding the transactions effected by them as and when and to the extent required by the Stock Exchange authorities.

(Para No. 7.112)

### Powers of the Stock Exchanges and other facilities available to them

(i) Stock Exchanges should also be vested with adequate authority to ask for reports on the activities of any authorised clerks or 'Taravaniwallas' and to take disciplinary action against them, if required.

(ii) Stock Exchanges should be empowered by suitable amendments to the Bye-Laws and Regulations to direct the members to maintain such books of accounts as may be required by them. Additionally, the Stock Exchanges should also be empowered to introduce compulsory audit or to conduct on the spot surprise audit and inspection of the books of accounts maintained by the stockbrokers.

(iii) Stock Exchanges should have well organised secretariats and research and statistical divisions to collect and interpret necessary data, to judge trends in trading, to monitor activities of the brokers, etc.

(Para No. 7.112)

### Organisation and management of the Stock Exchanges

The organisation and management of the Stock Exchanges should be revamped as recommended so that the Boards of the Stock Exchanges become professionalised and more effective in curbing excessive speculative activity in the stock markets.

(Para No. 7.113)

### Pursuit of common policies, practices and procedures

For the purpose of effecting better control on speculative transactions, the Stock Exchanges should

follow common policies and there should be uniformity in the practices and procedures covering all aspects of trading amongst the different Stock Exchanges, such as common dates of settlement of transactions, closure of transfer books, marking of securities ex or cum right/bonus/dividend basis, fixation of uniform rates of margins, trading hours, etc. Additionally, all Stock Exchanges must adopt uniform measures for regulation and control of trading for settlement business and micro-processors and computers should be used by the Stock Exchanges to handle the growing volume of business. Other infrastructure facilities available to them should be improved.

(Para No. 7.114)

#### **Augmentation of supply of Equity Shares**

(i) Closely held unlisted companies should be encouraged to get their shares listed, as recommended.

(ii) 50 per cent of the total funds raised by the public limited companies from the capital market should be in the form of fresh equity. This, however, should be achieved not by preventing debenture issues but by encouraging well managed companies to raise funds by issue of equity shares.

(iii) Development Institutions, Life Insurance Corporation of India and General Insurance Corporation of India and its subsidiaries should also be active sellers of equity shares in the Stock Exchanges.

(iv) Institutions should establish a suitable machinery for consultation and co-ordination of the activities for the sales and purchases of shares.

(v) Norms of debt-equity ratio in case of project financing should be reviewed by the development institutions so as to facilitate larger issue of equity capital rather than rely on debt finance by the entrepreneurs.

(vi) Entrepreneurs who corner the shares of the companies after listing to disturb the proper distribution of shareholding to the public, should be made to offer part of their shares to the public, to comply with the requirements of the listing agreements.

(Para Nos. 7.117 to 7.130)

#### **Capital Gains Tax**

Minimum period of holding in respect of industrial securities, to get exemption from the Capital Gains Tax, should be reduced from 3 years to 1 year provided the net proceeds of the industrial securities are reinvested within a period of one year in any other industrial security of the listed companies.

(Para No. 7.131)

#### **Revision in Bonus Guidelines**

The Committee recommends that companies may be allowed to issue bonus shares as and when their reserve position permits them to do so. The present guidelines in respect of bonus issue which, amongst other matters, specifies that there should be at least 3 years' gap between 2 issues of bonus shares and in a period of 5 years a company cannot issue bonus shares on more than 2 occasions, should be suitably amended.

(Para No. 7.132)

#### **Turnover Levy**

Turnover levy should be levied @0.05 per cent on the volume of transactions effected by the brokers on a gross basis.

(Para No. 7.133)

#### **Improvement in the self discipline of the stockbrokers and their awareness of their social responsibilities**

Improvement in the self discipline and ethical behaviour of the stockbrokers and awareness on their part of their social responsibilities brought about through upgrading of their technical skills and knowledge and the desired changes in their mental outlook and approach through proper education, training and experience and formulation of code of conduct will not only help the Stock Exchange authorities to moderate speculative excesses in the markets but also in resolving many other problems faced by them. The Committee has recommended necessary measures in this regard.

(Para No. 7.116)

## SECTION VI: SUMMARY OF THE MAIN RECOMMENDATIONS IN RESPECT OF SIMPLIFICATION AND MINIMISING DELAYS RELATING TO STOCK TRANSACTIONS (CHAPTER 8)

### Publication of Pamphlets and Hand-outs

The Committee is of the opinion that in order that an investor is made aware of the mechanics of trading on the Stock Exchange so as to enable him to choose the best type of order he can place. Stock Exchanges should publish pamphlets and hand-outs explaining all these matters in an easily understandable manner. Such publication would help in protecting fully the interests of investors.

(Para No. 8.3)

### Improvements in the practice

(i) As instantaneous availability of information relating to fluctuations in prices and volume of securities traded is of vital importance for efficient trading and close monitoring of the transaction on the Stock Exchanges, the Committee recommends that the present method of recording the transactions and prices by the stockbrokers only in the sauda book and thereafter the prices being broadcast or written on the black-board should be replaced by an electronic system whereby there is an instantaneous record of transactions and prices for the use of the offices of the stockbrokers and the Stock Exchange authorities. On the basis of the keyed-in information different type of data can be built up, manual work-load and documentation reduced, procedures simplified and considerable improvement achieved in the efficiency and functioning of the Stock Exchanges. The Committee also recommends that there should simultaneously be an instant display of prices in the trading hall and at all the other places, both in the Stock Exchange and elsewhere.

(ii) The Committee also recommends that the Stock Exchanges should use their good offices to exhort their members to make increasing use of the computer or micro-processor facilities either on an owned basis or on pooling arrangements or time-hire basis for a speedier disposal of work in their offices.

(iii) The Committee is of the view that the Bye-laws of the Stock Exchanges should be suitably amended to provide for the compulsory issue of contracts to the clients. These contracts should not only give the price of the contract and brokerage and other charges separately but must also indicate the time of the execution of the contract so that the client is able to verify about the veracity of the prices.

(iv) The Committee is of the opinion that the members in their returns to the Stock Exchanges should give the code numbers of their clients as regulation in respect of matters like collection of margins etc. is related to the gross open position of a member. Besides, this will also help in working out the accounts of members vis-a-vis their customers.

(Para Nos. 8.15 to 8.23)

### Settlement Of transactions

At the request of the Committee, the Unit Trust of India commissioned Tata Consultancy Services (TCS) to make a study on the feasibility of automation of the operations on Stock Exchanges in India. The TCS has suggested that the present system needs to be replaced by the timely capture of the data relating to each transaction by electronic devices. TCS has suggested the following approaches in this regard :

- (i) Instantaneous daily data collection by Stock Exchange personnel for immediate data entry into computer system through the terminals installed in the Trading ring. For this purpose, onus of reporting may have to be fixed on one of the parties to the transaction, preferably the seller. He should be required to keep with him a pad of sauda slips in triplicate wherein he would fill the details of the transactions like the code number of the buyer broker, the code number of the security, the quantity, the rate and the time of transaction as soon as the transaction is entered into. The selling member can deposit one copy of the sauda slip into a receptacle in the trading hall from where the information will be directly keyed to the personnel. He can give one copy of the Computer Centre by the Stock Exchange sauda slip to the buyer for his record and retain the other copy.
- (ii) Use of screen projection of VDU contents for the continuous display of security prices and volume information in the trading ring.
- (iii) Use of Star Network of Communication lines for the purpose of communication among the Stock Exchanges. To start with, this communication system would be used for exchange of information on price fluctuations, company news and announcement. In the long run, the Network would also be used for recording inter-exchange deals with brokers.

The Committee endorses the suggestions of the Tata Consultancy Services.

The second phase of the study by the Tata Consultancy Service would deal with the technical details, cost aspect and other related matters. The Committee is of the opinion that after receipt of the second part of the Report from the Tata Consultancy Service, the details of the whole Scheme should be worked out by the proposed Council for Securities Industry in consultation with any reputed computer agency selected for the purpose and implemented as soon as possible.

(Para Nos. 8.42 to 8.49)



## SECTION VII : SUMMARY OF THE MAIN RECOMMENDATIONS (CHAPTER 10)

### Part A : Measures to Improve Services to the Investors

Members of the Stock Exchanges should have adequate financial resources and infrastructural and research facilities to offer appropriate services to the investors. With this end in view, it is recommended that as far as possible, stockbrokers of small means should be persuaded to merge with others so that they can form viable and efficient units which could render more meaningful service to the investors. Excessive speculative activity should be curbed and stockbrokers should be made to concentrate more of their attention on genuine investment business rather than on speculative business.

(Para Nos. 10.5 and 10.6)

#### *Disclosure on the Part of stockbrokers and prohibition of certain transactions.*

(i) The stockbroker should be prohibited from matching the transactions of his clients in his office. All orders of sale/purchase should be executed only on the floor of the Exchange.

(ii) The contract notes issued by the stockbrokers should indicate the prices at which the securities are bought or sold, amount of commission charged, whether the stockbroker has acted as an agent or principal, the time of execution of the bargain, and whether the securities bought or sold are cum or ex-dividend, bonus or rights.

(iii) The Stock Exchanges should strengthen their cadre of floor governors who should constantly monitor and ensure that the transactions taking place on the floor of the Exchange are promptly and properly reported and recorded and no manipulation takes place therein.

(iv) Closing quotations of prices should not be allowed to be recorded unless transactions are for a sufficient number of securities. (This point has been dealt in detail in Chapter 7).

(v) The Stock Exchange authorities should conduct surprise audit and checks to ensure due compliance of the above and also of the Byelaws and Regulations by the stockbrokers.

(Para Nos. 10.8 to 10.11)

#### *Kerb Trading*

Kerb trading should not be allowed to take place and it should be ensured that transactions done in kerb are not regularised.

(Para No. 10.12)

#### *Prompt deliveries/payments*

(i) Severe penalties, including suspension of membership, should be levied in the event of a member not effecting timely deliveries or payments to his clients.

(ii) Stock Exchanges should publish in widely circulated newspapers, details regarding settlement programmes giving dates for delivery of shares and pay-ins and pay-outs, list of securities which are cum or ex-dividends, rights or bonus, etc.

(iii) The moneys and securities of a client should not be mixed up with that of his stockbroker. For the purpose, the stockbroker concerned should maintain separate bank accounts and safe custody accounts for depositing his client's moneys and securities.

(Para Nos. 10.13 and 10.14)

#### *Squaring up of transactions*

If an investor wants delivery of shares in respect of which he has placed an order, squaring up of such transactions should not be allowed. In the event the stockbroker is unable to effect deliveries at the contracted price, the shares should be acquired through auction within a specified period and delivered to the investor. The difference in the contracted price and the auction price should be recovered from the defaulting stockbroker. The Bye-laws of the Stock Exchanges regarding closing out of contracts need to be suitably amended for the purpose.

(Para Nos. 10.15 and 10.16)

#### *Responsibility for the actions of Sub-brokers*

The stockbroker with whom a sub-broker is associated should be wholly and directly responsible for any acts of commission or omission on part of the sub-broker, notwithstanding any agreement or arrangement entered into between the stockbroker and the sub-broker.

(Para Nos. 10.17 and 10.18)

#### *Bad deliveries*

Strict disciplinary action including suspension should be taken against members of the Stock Exchanges who have effected 'bad' deliveries and who do not co-operate in the removal of the objections and other infirmities in the documents delivered by them.

(Para Nos. 10.19 and 10.20)

#### *Bank finance for some transactions of stockbrokers*

(i) The commercial banks should provide loans against non-convertible debentures pledged with them by the stockbrokers. Also, credit facilities should be granted against securities of cash series. However, security margins in respect of finance made available against cash series should be much higher as compared to the margins applicable in respect of non-convertible debentures.

(ii) The banks should provide loans to the speculators (this point has been examined in detail in Chapter 4).

(iii) Loans should be granted to stockbrokers for purchase of office equipment, furnishing of the premises, etc. at reasonable rates of interest.

(iv) Adequate working capital facilities should be provided by the banks to the members of the Stock Exchange to augment their business finance to facilitate payment requirements of their clients.

(Para Nos. 10.25 to 10.28)

(i) At the time of sanction of issues of capital for bonus or right shares or convertible bonds/debentures to the existing shareholders, it may be ensured by the Controller of Capital Issues that the quantum of fresh capital allowed to be raised does not, as far as possible result in odd lots.

(ii) The basis of allotment of shares in respect of public issues should, as far as possible, be done in a manner which results in issue of marketable lots.

(iii) The class of market makers known as 'specialists' which is recommended to be created for dealing in infrequently traded and non-active shares should also deal in odd lots of shares on a fixed commission basis. 'Specialists' should be extended the facility of bank finance for their operations, as stated earlier.

(iv) If three certificates of odd lots of shares together make a marketable lot and if requisite number of transfer deeds are tendered, the delivery of documents should be accepted even though the shares represented by them may stand in the names of upto three different persons. The Stock Exchanges may examine this suggestion and amend the concerned Regulation, if necessary.

(v) In case the odd lots of shares which aggregate to a marketable lot or more, are tendered for transfers, the companies themselves should effect consolidation and issue certificates in marketable lots to the extent possible.

(vi) The companies should take the initiative and request the shareholders to tender their odd lot holdings for encashment. These odd lot holdings should then be consolidated into marketable lots in the name/s of the assigned nominee/s appointed for the purpose by the Boards of the companies and sold in the Stock Exchanges. The sale proceeds thereof should thereafter be distributed to the original odd lot shareholders on a pro-rata basis.

(vii) The quotations in respect of odd lots should also be separately reported in the newspapers.

(Para Nos. 10.29 to 10.38)

#### *Formalities and procedures of Transfer*

(i) The validity of the transfer deed should be two months from the date of stamping or one month after the re-opening of the Register of Members of companies, whichever is later. Section 108 of the Companies Act, 1956 may be suitably amended.

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(ii) The Committee does not favour deletion of Section 108 of the Companies Act, 1956.

(iii) The period of notice to be issued by a company for closure of Register of Members should be increased from 7 days to 30 days. Such a notice should also be given to the Regional Stock Exchange. Section 154 of the Companies Act, 1956 may be suitably amended.

(iv) The seller of shares should effect delivery of shares 21 days before the closure of Register of Members as against before 14 days, as at present. Rule of the Stock Exchange in this regard may be suitably amended.

(v) The transfer deed and the application form for new issues should provide a column giving details of the existing portfolio number, if any, of the shareholders/applicants. The investors should also have the benefit of getting their dividend/interest warrants or refund orders directly credited to their bank accounts. For the purpose, suitable space for giving particulars of the bank accounts of the shareholders/applicants should be provided in the transfer deed and in the share application form.

(vi) Companies should accept the signature of the transferor if his signature is duly attested on the transfer deed by any of the following :

- (a) Bank officials of the rank of Branch Managers and above ;
- (b) Gazetted Officers ;
- (c) Honorary Presidency Magistrate ;
- (d) Notary Public; and
- (e) Managing Director of the Stock Exchange (recommended in the revised organisation structure of the Stock Exchanges in the Committee's Report on the subject).

Signatures in all Indian languages and also thumb impressions, if they are attested by any of the aforesaid designated officials, should be accepted for the purpose of transfer of securities.

The relevant provisions of the Companies Act, 1956 may be suitably amended, if necessary for the above purposes.

(vii) With a view to insulating the companies against any financial liability resulting from fraudulent attestation of the signatures of the transferors, the companies should obtain an insurance cover for the purpose.

(viii) In the event of the company not accepting a transfer of securities on account of infirmities in the documents executed or for any other reason, the company's decision in the matter should be immediately communicated to the transferee and to his stockbroker. Additionally, dividends, bonus, rights issue of shares/debentures or right entitled letters

should not be despatched in respect of such shares/debentures to the seller of the securities (i.e. in whose name the securities stand registered). Such dividends, bonus shares, rights shares/debentures or right entitlement letters should be withheld by the company, in trust, for the purchaser till such time the matter is resolved between the transferor and the transferee. The Committee also recommends that the voting rights in respect of such disputed shares should also be frozen. The companies should be required to record all such disputed cases in a separate register. Suitable legislative changes may be made in the concerned Act.

(ix) In case duly executed transfer deeds together with share/debenture certificates are 'posted' to the company before the date of closure of the Register of Members but are received by the company after the date of closure, in such cases, the companies should accept the documents. In other words, if the documents lodged for transfer are not received by the company concerned before the closure of books due to postal delays, the delay in such cases should be condoned. Section 108 (1A) (b) of the Companies Act, 1956 should be amended to substitute the word 'delivered' by the word 'posted'.

(x) In principle, there should be free transferability of shares. However, for the present, when the aggregate holding of a shareholder does not exceed beyond a specified amount, free transferability should be ensured.

(xi) If in case the signature of a transferor on the transfer deed differs from his specimen signature recorded with the company, the power to say so should vest only with the Secretary of the company.

(xii) Guidelines regarding procedures to be followed in case of death of a shareholder, loss of share/debenture certificates, etc., should be uniform and be simplified. Such guidelines should be framed either by the proposed Council for Securities Industry.

(xiii) The stamp duty on transfer of securities should be made uniform throughout the country and be levied at 25 per cent for every Rs. 100 or part thereof, of the market value or consideration amount both in respect of shares and debentures.

(xiv) Stock Exchanges should be permitted to use franking machines for the purposes of payment of share transfer stamp duty. Additionally, share transfer stamps should be made available at all post offices.

(Para Nos. 10.39 to 10.57)

#### *Facilities provided by the Stock Exchanges and their general functioning*

(i) With a view to improving the services to the investors the Stock Exchange authorities must ensure that there is strict observance of the Rules, Byelaws and Regulations on the part of their members and if there is any violation, prompt and strict disciplinary action should be taken.

(ii) It should be ensured that speculative activity and other harmful activities relating to securities business are kept under strict observance and control so that crises do not emerge in the stock markets.

(iii) Membership of the Stock Exchanges should be increased commensurate with the securities business.

(iv) The Arbitration Committees must look to the interests of the investors. These Committees should be headed by outside persons with a view to ensuring impartiality and they should meet more often to avoid delays.

(v) All Stock Exchanges should follow uniform practices and procedures relating to marking of quotations, cum and ex-rights or bonus, cum and ex-dividends (on the dates of closure of transfer books), settlement periods, trading hours, clearing systems, electronic display on the notice boards of prices prevailing on other Stock Exchanges, imposition of margins, etc. Also all Stock Exchanges should be connected to electronic network facilitating simultaneous display of prices at all Stock Exchanges.

(vi) Greater reliance should be placed on the mechanical aids such as computers, microprocessors, etc. by the Stock Exchanges.

(vii) The grievance cells proposed to be established at each of the Stock Exchanges should be managed by the senior executives of the Stock Exchanges.

(viii) One of the measures to prevent excessive speculation would be to require each broker to make full disclosure of the volume of transactions and the prices to the Stock Exchanges. Consolidated information of the same should be complied by the Stock Exchanges and released for the general information of the public. In case of large purchases/sales the Stock Exchange should call for the disclosure of the names of the parties on whose account the large transactions have taken place.

(ix) Companies should be made to disclose the names of the persons/group of persons who directly or indirectly have acquired 5 per cent of the paid up capital of the company. This disclosure should be immediately made to the Stock Exchanges and also advertised in at least two newspapers of the region where the registered office of the company is situated. Besides disclosure of the name of the purchaser/s, the prices at which the shares have been acquired from time to time should also be disclosed.

(Para Nos. 10.58 to 10.67)

#### *Services to be offered by companies*

(i) Staff of the share departments of the companies should be made aware of their responsibility to the shareholders and their working should be toned up and made more efficient. Management of companies should take keen interest in such matters.

(ii) The Chambers of Commerce, Merchant Chambers and other such associations should evolve a code

of conduct for the companies to follow in matters relating to proper service to the share|debenture holders.

(iii) Institute of Company Secretaries of India should issue suitable guidelines for the Secretaries of the companies to tune up the efficiency of the Secretarial and Share departments of the companies and also to help the managements to simplify and streamline the procedures and practices connected with the work of the share departments.

(iv) The Stock Exchanges should monitor due compliance by the companies of the listing requirements relating to service to share|debenture holders.

(v) Companies should publish their unaudited working results on a half yearly basis and on a quarterly basis, if their paid up capital is Rs. 10 crores or more and also publish frequently news items about other important developments having a bearing on their working for the information of the shareholders and the investing public.

(vi) The companies should make dividends|refund orders|interest payorders payable at par at all the branches of their banks.

(Para No. 10.68)

#### **Part B : Measures to Encourage Investors in Semi-Urban and Rural Areas to Invest in Industrial Securities**

##### *Instruments to be offered*

(i) The investors in the semi-urban and rural areas should be educated about the benefits of investment in industrial securities.

(ii) It would be appropriate that, for the present, the investors from such areas are not exposed to equity issues of new companies. They should rather be encouraged to invest in safe instruments like units of Unit Trust of India or cumulative convertible preference shares.

(iii) Development Institutions may consider issue of participation certificates of the minimum face value of Rs. 10,000 each offering reasonable yield and buy-back arrangements to the investors in such areas.

(iv) Measures should also be taken to encourage public sector companies to issue debentures with buy-back arrangements to the investors in these areas.

(Para Nos. 10.74 and 10.75)

##### *Reservation of issues for rural and semi-urban investors*

To begin with, 20-25 per cent of the public issues in respect of convertible and non-convertible debentures and equity shares of well managed dividend paying companies should be reserved for subscription by the investors in the semi-urban and rural areas with a population of 1,00,000 and less. Condition to this effect should be incorporated in the consent for the issue of capital given by the Controller of Capital Issues.

(Para No. 10.77)

##### *Publicity for creating awareness*

(i) Publicity in different forms in regional languages should be undertaken by the proposed Council for Securities Industry or by other agencies with a view to creating awareness and highlighting the benefits of investment in industrial securities.

(ii) Within a regulated framework, the stockbrokers, investment consultants, merchant bankers, etc. may be allowed to advertise to promote investment in industrial securities.

(iii) The Government may consider publicising over, radio and TV, the benefits of investment in industrial securities and also the quotations of prominent scrips of the Stock Exchanges, periodically.

(iv) Publicity Campaigns undertaken by stockbrokers and others connected with the securities industry, over radio and TV, may be allowed at concessional rates, subject to the contents of the advertisements being within the guidelines laid down for the purpose.

(v) Concessions should be granted on postal tariff in regard to the distribution of various types of investment literature, to the investors. Such a step would further the cause of investment in industrial securities.

(vi) Seminars, lectures, press conferences should be organised in semi-urban and rural areas at different intervals by the Stock Exchanges. Establishment of Investors' clubs and Investors' Bureaus should also be encouraged by the Stock Exchanges.

(Para Nos. 10.78 to 10.81)

##### *Stock Exchange Centres*

(i) Stock Exchanges should be established, in a phased manner, in all the non-metropolitan centres having a population of 5 lakhs or more. In the alternative, to begin with, the existing Stock Exchanges may be allowed to open their branch|representative offices in such centres. However, such offices of Stock Exchanges should have adequate facilities of simultaneous display of stock prices and other vital investment information. In the early stages, the Government may consider subsidising the cost of the electronic link-up so required and subsequently the same could be financed by stockbrokers and other operators working in the branch|representative offices of the Stock Exchanges.

(Para No. 10.82)

##### *Network of sub-brokers and agents*

(i) Stockbrokers should be encouraged to enlarge their network of sub-brokers, particularly residing in semi-urban and rural areas.

(ii) Sub-brokers who are located in semi-urban and rural areas should be allowed to undertake other gainful activities to augment their income.

(iii) Stockbrokers should be encouraged to open their branch offices in centres where there are no Stock Exchanges.

(iv) Services of the agents canvassing business for Life Insurance Corporation of India, Unit Trust of India, national savings certificates, etc., should be utilised for spreading the message of industrial securities and should be given the same rate of brokerage as payable to the members of the Stock Exchanges. The services of security dealers which may be licensed should also be enlisted for the purpose.

(Para Nos. 10.83 to 10.87)

#### *Use of services of Post offices and Commercial Banks*

(i) Services of post offices should be utilised for the distribution of literature in industrial securities, application forms, etc.

(ii) The services of commercial banks operating in the rural and semi-urban areas should be utilised for canvassing of investment in industrial securities in these areas.

(iii) The bank branches situated in semi-urban and rural areas should encourage their account holders and other investors to hold corporate securities either jointly in the name of the bank or in the name of the bank only as their power of attorney holder or custodian. This will facilitate the rural and semi-urban investors in overcoming irksome hurdles and avoid compliance with formalities on their part.

(iv) The bank branches should also encourage the investors to open accounts with them and obtain mandates from them so that they can render services to them like applying for new issues, collection of dividends and interests, etc. The banks may levy a nominal charge for rendering such services. The staff of the banks will have to be trained, if necessary, in the knowledge about acquisition and dealings in securities.

(v) If the commercial banks are not willing to undertake this work the help of the Cooperative and Rural Banks with adequate branch network should be solicited.

(vi) The Committee does not favour, for the present, establishment of a separate Institute or utilisation of the services of the proposed service Institute Issue House for the purpose.

(Para Nos. 10.88 to 10.95)

#### *Investment advice and services*

(i) Intensive research and indepth study should be undertaken in regard to the securities business preferably by the proposed Council for Securities Industry and the information compiled therefrom should be freely circulated to the Stock Exchanges and at subsidised price among the stockbrokers, sub-brokers, agents, etc. who in turn would distribute the same to their clients.

(ii) The stockbrokers and others connected with the securities business should develop necessary expertise and have adequate knowledge on various inter-related matters so as to offer proper investment counsel to their clients.

(Para Nos. 10.96 to 10.100)

#### *Protection to Investors*

As already recommended.

(i) Investors' Protection Fund should be created with a view to compensating the investors in the event of loss incurred on account of defaults committed by their stockbrokers.

(ii) Each member of the Stock Exchange should obtain insurance covers with a view to protecting the investors against the loss of documents in transit or by fire and in the event of fraudulent acts committed by the staff members or others associated with him.

(Para Nos. 10.101 and 10.102)

**SECTION VIII : AMENDMENTS PROPOSED TO THE SECURITIES CONTRACTS (REGULATION) ACT, 1956 AND THE SECURITIES CONTRACTS (REGULATION) RULES, 1957**

## 1. Pages 21 and 22

Para 3.18 to 3.20

Either by a separate legislation or amendment to the Securities Contracts (Regulation) Act, 1956 the activities of all others associated with the Stock Exchange, directly or indirectly, have to be statutorily regulated. This has particular reference to merchant bankers, issue houses, managing brokers, bankers to the issue of securities and Registrars to the public issues, etc. i.e. all those who are involved, directly or indirectly, in the public issues of securities by joint stock companies.

## 2. Page 22

Para 3.22

Section 3(j) of the Securities Contracts (Regulation) Act, 1956 should be amended to enable the Government to change the organisation form of Stock Exchanges which are presently associations of persons or companies limited by shares so that all the Stock Exchanges have a uniform organisational structure as companies limited by guarantee.

## 3. Page 24

Para 3.40

Securities Contracts (Regulation) Act, 1956 to be amended vesting the Governing Bodies of Stock Exchanges with adequate powers and authority to institute civil and criminal proceedings against members and non-members for breach or violation of any of the provision of the Securities Contracts (Regulation) Act, 1956, Rules, Byelaws and Regulations of the Stock Exchanges and directives issued by the Government or the Stock Exchange authorities or the Council for Securities Industry.

## 4. Page 24

Para 3.40

To re-cast and re-organise the Governing Bodies of the Stock Exchanges, both Securities Contracts (Regulation) Act, 1956 and Securities Contracts (Regulation) Rules, 1957 to be amended.

## 5. Page 27

Para 3.51

Council for Securities Industry should be established by legislation.

## 6. Page 33

Para 4.44

Securities Contracts (Regulation) Act, 1956 to be amended to provide that only 50 percent of the admission fee and value of membership cards/shares should be paid to the nominees/heirs of the deceased members or to the resigning members, as the case may be as compensation or goodwill to the outgoing members upon the surrender of the membership of the Exchange. This provision should also be extended to the existing members by an appropriate amendment to the Securities Contracts (Regulation) Act, 1956 and the Rules framed thereunder.

## 7. Page 34

Para 4.45

Securities Contracts (Regulation) Act/Securities Contracts (Regulation) Rules to be amended to provide for termination of dormant members.

## 8. Page 35

Para 4.51

Securities Contracts (Regulation) Act, 1956 to be amended permitting the Stock Exchanges to open branch offices at different places in the country excluding centres where minor Stock Exchanges are situated.

## 9. Page 35

Para 4.50

To allow multiple membership of Stock Exchanges, Securities Contracts (Regulation) Act, 1956 may be amended.

## 10. Page 36

Para 4.56

Byelaws and Regulation and the constitution relating to the organisation of the Stock Exchanges should be suitably amended to provide for increase in the membership of the Stock Exchanges. Securities Contracts (Regulation) Act, 1956 should also be amended vesting the Government with suitable specific powers to direct Stock Exchanges to increase their membership.

## 11. Page 37

Para 4.66

Securities Contracts (Regulation) Act, 1956 and the Byelaws and Regulations to be amended for the enrolment, eligibility criteria, precise functions, duties and responsibilities of the authorised assistants/clerks of members and for holding the members of Stock Exchanges under whom they work, responsible for all the transactions concluded by the authorised assistants/clerks in the market either on behalf of the members or on their own account.

## 12. Page 41

Para 5.4

Companies Act, 1956 and the Securities Contracts (Regulation) Act, 1956 to be amended to provide for invoking the powers under Section 21 of the Securities Contracts (Regulation) Act, 1956 for securing compulsory listing of all :

- (i) Companies which raise term loans/debentures from financial institutions excluding foreign currency or raise resources by issue of shares/debentures of Rs. 3 crores and more in the aggregate from the financial institutions.
- (ii) Companies having a networth of more than Rs. 1 crore and which have made profits (before tax) in at least three years out of the last five years.

Such companies should be statutorily required to list the shares/debentures on the Stock Exchange to ensure that their functioning is subject to Stock Exchange listing requirements.

13. Page 42 Para 5.7

Securities Contracts (Regulation) Act, 1956 to be amended to provide for dealing with any violations of the provisions of the listing agreements by listed companies which will be deemed as offences punishable by Stock Exchanges by levy of fine or by instituting suitable proceedings in a Court of law.

14. Page 44 Para 5.24

Rule 19(2)(b) of the Securities Contracts (Regulation) Rules, 1957 to be amended to provide for power of relaxation under this rule to be vested with the regional Stock Exchanges; and once the regional Stock Exchange gives the relaxation, such relaxation should be applicable for listing on other Stock Exchanges and no separate and individual relaxation should be necessary for listing on other Stock Exchanges.

15. Page 80 Para 7.106

Securities Contracts (Regulation) Act, 1956 to be amended suitably to prevent unhealthy practices including kerb trading, insider trading, etc. which would be treated as civil and criminal offences and enabling the Stock Exchange authorities to suspend/expel/warn off members who indulge in them apart from imposing heavy fines.

16. Pages 80 & 109 Paras 7.107 and 10.68

Listed companies should be required to publish un-audited half-yearly working results and if their capital is Rs. 10 crores or more, they should publish the same on a quarterly basis. This responsibility should be statutorily fixed on companies under the Companies Act, 1956 and the Securities Contracts (Regulation) Act, 1956.

17. Page 80 Para 7.106

Securities Contracts (Regulation) Act, 1956 should be amended to make manipulations, false trading, market rigging, spreading of false rumours and insider trading, etc. as civil and criminal offences and to enable the Stock Exchanges to take suitable action in the matter.

18. Page 80 Para 7.108

Securities Contracts (Regulation) Act, 1956 should provide specifically for prohibiting and banning insider trading.

19. Page 88 Para 8.22

Securities Contracts (Regulation) Act, 1956 and Byelaws and Regulations should be amended to make issue of contract notes by the members to the clients statutorily compulsory. These contract notes should give the price of the securities and also the brokerage and other charges separately.

20. Page 92 Para 9.10

Securities Contracts (Regulation) Act, 1956 and the Byelaws and Regulations should be amended to make it obligatory on the part of members and the clients to observe their respective Codes of Conduct.

21. Page 93 Para 9.18

Securities Contracts (Regulation) Act, 1956 to be amended to provide for insurance covers to be taken out by members protecting them from several hazards and risks involved in securities business.

22. Page 101 & 102 Para 10.8

Securities Contracts (Regulation) Act, 1956 and Byelaws and Regulations to be amended to prohibit members from matching transactions of their clients in their offices and to ensure that all orders of clients are executed on the floor of the Exchange.



## AMENDMENTS PROPOSED TO THE COMPANIES ACT, 1956 INCOME TAX ACT, 1961 AND OTHER ACTS

## 1. Page 41

Para 5.4

Companies Act, 1956 and the Securities Contracts (Regulation) Act, 1956 to be amended to provide for invoking the powers under Section 21 of the Securities Contracts (Regulation) Act, 1956 for securing compulsory listing of all :

- (i) Companies which raise term loans/debentures from the financial institutions excluding foreign currency or raise resources by issue of shares/debentures of Rs. 3 crores and more in the aggregate from the financial institutions.
- (ii) Companies having a network of more than Rs. 1 crore and which have made profits (before tax) in atleast three years out of the last five years.

Such companies should be statutorily required to list the shares/debentures on the Stock Exchange to ensure that their functioning is subject to Stock Exchange listing requirements.

## 2. Page 44

Para 5.21

Section 73 of the Companies Act, 1956 to be amended empowering the regional Stock Exchanges to extend the maximum time limit of ten weeks from the date of closure of subscription list prescribed under this Section, for the securities of the companies to be admitted for dealings on the Exchange. This power may be vested with the regional Stock Exchanges for extending such periods in suitable cases on merits.

## 3. Page 50

Para 6.33

Section 64 of the Companies Act, 1956 to be amended to exempt its application to cases of companies whose shares/debentures are initially subscribed for by the financial institutions and are subsequently offered for sale to the public by the financial institutions. Any public offer for sale of shares/debentures made by the financial institutions later, if they satisfy other listing requirements, should be saved from the application of Section 64 of the Companies Act, 1956.

## 4. Page 54

Paras 6.51 &amp; 6.52

Distribution of composite application forms by companies in respect of public issues of shares/debentures should be permitted together with a perforated annexure furnishing the main highlights of the projects at a glance. Section 56 of the Companies Act, 1956 to be suitably amended to provide for this.

## 5. Page 58

Para 6.72

Sections 69 and 73 of the Companies Act, 1956 to be amended to enable the investors subscribing to public issues of securities to pay the application monies through 'Security Cheques'. This would save

time and trouble for companies and facilitate faster refund of application monies in the case of non-allottees.

## 6. Page 59

Para 6.76

Central Board of Direct Taxes should be requested to make suitable provisions in the Income tax Act, 1961 to ensure that companies coming out with public issue of securities do not exceed the overall ceilings recommended by the Committee. All such excess expenditure incurred by the company should not be allowed as expenses for purposes of taxation under the Income tax Act, 1961.

## 7. Pages 80 &amp; 109

Paras 7.107 &amp; 10.68

Listed companies should be required to publish unaudited half-yearly working results and if their capital is Rs. 10 crores or more, they should publish the same on a quarterly basis. This responsibility should be statutorily fixed on companies under the Companies Act, 1956 and the Securities Contracts (Regulation) Act, 1956.

## 8. Page 85

Para 7.131

Capital Gains tax provisions to be amended to exempt capital gains from sale of industrial securities if such gains are re-invested within a period of one year in any listed securities. Also the minimum holding period of securities for purposes of capital gains should be reduced from the present three years to one year for purposes of counting long term capital gains in case of industrial securities.

## 9. Page 106

Para 10.49(1)

Section 108 of the Companies Act, 1956 to be amended to fix the period of validity of transfer forms at two months from the date of stamping by the prescribed authority or at one month after the date of re-opening of the Register of Members after closure for the first time subsequent to the date of stamping, whichever is later.

## 10. Page 106 &amp; 107

Para 10.49(2)

Companies Act, 1956 to be amended to increase the number of days of notice to be given to the Stock Exchange for purposes of closure of Register of Members from the present 7 days to 30 days. Consequential changes to Section 154 of the Companies Act, 1956 should also be made.

## 11. Page 107

Para 10.49(5)

Companies Act, 1956 to be amended to make it obligatory on the part of public companies to accept signatures of the sellers on the transfer deeds, its duly attested by the bank officials of the rank of Branch Managers and above, Gazetted Officers, Honorary Presidency Magistrate, Notary Public and the Managing Director of Stock Exchange, under their seal.

## 12. Page 107

## Para 10.51

Companies Act, 1956 to be amended for making companies to maintain separate registers in respect of transfers lodged with the company before the closure of Register of Members and found to be defective for any reason to ensure that all the benefits in respect of rights, dividends, bonus, etc. pertaining to these shares to be frozen and held in trust and paid to the purchaser in due time.

## 13. Page 107

## Para 10.52

Companies Act, 1956 to be amended providing for the extension of period of acceptance of share certificates and duly executed transfer deeds beyond the last date of closure of Register of Members. This should be applicable to cases of delay in lodging to all documents relating to the transfer due to causes

connected with post, by the actual period of delay, provided the documents are posted by registered post before the closure of Register of Members. Section 108 of the Companies Act, 1956 to be suitably modified to provide for this.

## 14. Page 107

## Para 10.56

Common policy in respect of fixation of stamp duty should be followed by all the States in India. Stamp duty on transfer of shares should be reduced to 25 paise for every Rs. 100 or part thereof of the market value and consideration amount. Stamp duty on transfer of debentures should also be fixed uniformly in all States in India at 25 paise for every Rs. 100 or part thereof of the market value or consideration amount. Suitable amendments may be made to the relevant Acts.



## AMENDMENTS PROPOSED TO THE RULE, BYE-LAWS AND REGULATIONS OF STOCK EXCHANGES

1. Page 24 Para 3.40  
 To re-cast and re-organise the Governing Bodies of the Stock Exchanges, the Rules, Byelaws and Regulations should be amended. Para 7.96  
 with a view to having separate contracts for trading for settlement account and for general investment, Byelaws and Regulations should be suitably amended.
2. Pages 32 & 111 Paras 4.34 & 10.80  
 To allow members of Stock Exchanges to advertise within the framework of guidelines, Byelaws and Regulations may be suitably amended. Para 7.98  
 Byelaws and Regulations to be amended to prohibit and ban carry over of transaction in cash scrips. Though this is not now permissible in the Byelaws and Regulations, in practice this is being done in many leading Stock Exchanges.
3. Para 35 Para 4.53  
 Byelaws and Regulations should be amended to lay down clearly and specifically that orders of clients on the books of stockbrokers should be executed before any order on account of the stockbroker himself or on account of his partner, director or employee is executed. Para 7.97  
 Carryover of transactions in case of specified shares should not be permitted beyond four settlement periods of 14 days each and members should settle such positions once in 60 days. Byelaws and Regulations will have to be changed suitably.
4. Page 36 Para 4.56  
 Bye laws and Regulations and the constitution relating to the organisation of the Stock Exchanges should be suitably amended to provide for increase in the membership of the Stock Exchanges. Securities Contracts (Regulation) Act, 1956 should also be amended vesting the Government with suitable specific powers to direct Stock Exchanges to increase their membership. Paras 7.99 & 10.16  
 With a view to protecting genuine investors and ensuring delivery of shares at the contracted price, the Byelaws and Regulations should be amended to provide for the following in case of default by the member brokers:
  - (a) the shares should be acquired through auction and difference in price should be collected from the member brokers
  - (b) the clients should get protection in the case of asset distribution of a defaulting member.
5. Page 36 Para 4.62  
 Suitable Rules should be framed to create a class of "specialists". Para 7.101  
 Byelaws and Regulations to be amended vesting the authority with the Stock Exchanges to direct members not to deal with any non-members, without assigning any reason. Member brokers should not be allowed to arrange for finance from outside by offering the shares under purchase with blank transfers as security, for speculative trading on their own account or on account of others.
6. Page 37 Para 4.66  
 Securities Contracts (Regulation) Act, 1956 and the Byelaws and Regulations to be amended for the enrolment, eligibility criteria, precise functions, duties and responsibilities of the authorised assistants|clerks of members and for holding the members of Stock Exchange under whom they work, responsible for all the transactions concluded by the authorised assistants|clerks in the market either on behalf of the members or on their own account. Paras 7.103 & 10.12  
 Kerb trading to be strictly prohibited and the Byelaws and Regulations should be further tightened making it as an offence punishable by suspension of membership.
7. Page 75 & 76 Para 7.88  
 Byelaws and Regulations of all the Stock Exchanges should be suitably amended so as to make them uniform. Uniformity in the criteria for inclusion of scrips in the specified section should also be laid down, wherever applicable. Para 7.104  
 Closing quotations should not be permitted to be marked in the daily official list fifteen minutes before the closing time unless the transactions are for more than 250 shares of Rs. 10 each or 25 shares of Rs. 100 each. This is intended to prevent manipulation of closing prices.
8. Page 75 Para 7.86  
 Bye laws and Regulations to be amended to ensure prevention of excessive build up of speculative activities in the market with special provisions to forestall or diffuse crisis situations.

16. Pages 79 &amp; 80

Para 7.105

Spread of two-way quotations for buying and selling in a single security should be within reasonable limits and be as prescribed by the Council for Securities Industry.

17. Pages 80 &amp; 81

Para 7.109

Trading in securities before listing to be regulated by permitting official trading by grant of provisional listing for the securities from the date of issue of prospectus. Byelaws and Regulations should be suitably amended.

18. Page 81

Parar 7.110

Byelaws and Regulations to be amended to make margins payable by members only in cash and not by way of securities.

19. Pages 81 &amp; 82

Para 7.112 (i) &amp; (ii)

Byelaws and Regulations to be amended to make it statutorily obligatory for members to report all the transactions in securities to the Stock Exchanges. Stock Exchanges should have the authority and power to search and seizure of documents and books of accounts of members, whenever such action is called for. Stock Exchanges should also have the authority to direct members to maintain specific books of accounts.

20. Page 88

Para 8.22

Securities Contracts (Regulation) Act, 1956 and the Byelaws and Regulations should be amended to make issue of contract notes by the members to the clients statutorily compulsory. These contract notes should give the price of the securities and also the brokerage and other charges separately.

21. Page 92

Para 9.10

Securities Contracts (Regulation) Act, 1956 and the Byelaws and Regulations should be amended to make it obligatory on the part of members and the clients to observe their respective Codes of Conduct.

22. Page 102

Para 10.8

Securities Contracts (Regulation) Act, 1956 and the Byelaws and Regulations to be amended to prohibit members from matching transactions of their clients in their offices and to ensure that all orders of clients are executed on the floor of the Exchange.

23. Pages 78 &amp; 102

Paras 7.99 &amp; 10.16

Byelaws and Regulations to be amended to provide that members should be held responsible for the lowered where the investor wants to take delivery of shares. Closing out provisions of the Byelaws and Regulations to be suitably amended.

24. Page 103

Para 10.18

Byelaws and Regulations to be amended to provide that members should be held responsible for the acts of commission and omission of sub-brokers associated with them.

25. Page 107

Para 10.49 (3)

Byelaws and Regulations to be amended to increase the guarantee period in respect of delivery of shares by the selling party to 21 days before the closure of Register of Members or the record date instead of 10 to 13 days presently observed by the Stock Exchanges.

Sd/- G S PATEL  
(CHAIRMAN)

Sd/- D. R. MEHTA  
(MEMBER)

Sd/- DR. S M DUGAR  
(MEMBER)

Sd/- DR. S A DAVE  
(MEMBER)

Sd/- S S NADKARNI  
(MEMBER)

Sd/- DR. D H PAI PANANDIKER Sd/- K V SHANBHOGUE  
(MEMBER) (MEMBER)

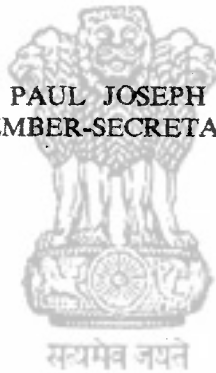
Sd/- M J PHERWANI  
(MEMBER)

Sd/- M R MAYYA  
(MEMBER)

Sd/- E R KRISHNAMURTI  
(MEMBER)

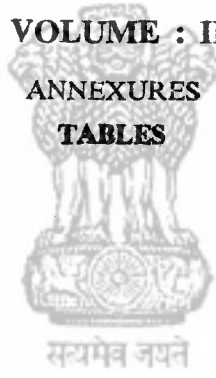
Sd/- DR. L C GUPTA  
(MEMBER)

Sd/- PAUL JOSEPH  
(MEMBER-SECRETARY)





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ANNEXURE 1(A)

Letters sent to all the Stock Exchange Presidents

1ST LETTER

May 24, 1984

G. S. PATEL,  
Chairman,  
Committee to Review the  
Working of Stock Exchanges,  
C/o. Unit Trust of India,  
13, New Marine Lines,  
Bombay-400020.

Dear Shri

As you are aware, the Government have appointed a High Powered Committee to make a comprehensive review of the functioning of the Stock Exchange in India and to make recommendations to the Government in the matter.

A copy of the Notification dated May 17, 1984 issued by the Government in this behalf is enclosed favour of your ready reference.

You having been associated with the practical working of the Stock Exchanges for so long and having vast experience and indepth knowledge of the various facets of the market activities, the Committee would solicit your valued co-operation and support in the finalisation of its Report.

In the first instance, the Committee shall be grateful if you could sent us at an early date, detailed note(s) conveying your considered views/suggestions, on the various aspects of the terms of reference to the Committee.

We have also to request you to circulate among the members of your Stock Exchange the said Notification so as to enable any member/s to convey his/her views and suggestions to the Committee directly, if they so desire.

In this connection, it will much facilitate our task if a detailed note is also forwarded to the Committee regarding various procedural aspects relating

to transactions in securities in vogue in your Exchange beginning from the point of placement of order by an investor to purchase or to sell security/ies on the Stock Exchange till the transfer of the said security/ies in the name of the buyer/s. Specimen copies of the various forms used at each of the stages in connection with the transactions including the ledger sheets for the books maintained for the purchase may also pleased be enclosed.

We shall be grateful if you could kindly arrange to send us 20 copies each of all the materials that you are submitting to the Committee on behalf of your Exchange to the following :

1. Shri Paul Joseph,  
Member-Secretary,  
Joint Director (Stock Exchange),  
Department of Economic Affairs,  
Ministry of Finance, North Block,  
New Delhi-110001.
2. Shri Gireesh Bhagat,  
Officer on Special Duty to the Committee  
to Review the Working of Stock Exchanges,  
Unit Trust of India,  
13, New Marine Lines,  
Bombay-400020.

It is our desire to see personally the working of the brokers' offices at some of the Stock Exchanges. We would, therefore, request you to send us a list of atleast five brokers drawn from the big, medium and small brokers, whose offices we may visit.

At a later date, we propose to meet you in person to get the benefit of your views and guidance.

We shall appreciate if you will kindly expedite your reply.

With kind regards,

Yours sincerely,  
G. S. PATEL

ANNEXURE 1(B)

2nd Letter

**High Powered Committee  
on Stock Exchanges  
C/o Unit Trust of India  
13, New Marine Lines  
Bombay-400020**

Ref. SE/ 184-85  
G. S. PATEL  
Chairman

May 25, 1984

Dear Shri

As you are aware, the Government have appointed a High Powered Committee to make a comprehensive review of the functioning of the Stock Exchanges in India and to make recommendations to the Government in the matter.

A copy of the Notification dated May 17, 1984 issued by the Government in this behalf is enclosed for favour of your ready reference.

We have already requested you to circulate among your members of your Stock Exchange the said Notification so as to enable any member/s to convey his/her views and suggestions to the Committee directly if they so desire.

We would also request you to put a copy of this letter on your notice board so that if any member of your Exchange wants to discuss the matter personally either with the Committee or with the Chairman, he can meet either the Committee members or the Chairman when they come to (place) at a future date. We will intimate to you well in advance about the arrival of the Committee members and the Chairman at your place and also indicate the address at which the Officer on Special Duty, Shri Gireesh Bhagat may be contacted for necessary appointment.

Thanking you and with kind regards,

Your sincerely,  
(G. S. PATEL)

Sent to all the Stock Exchange Presidents



ANNEXURE 1(C)

3rd Letter

High Powered Committee  
on Stock Exchanges  
Cio Unit Trust of India  
13, New Marine Lines  
Bombay-400020

Ref. SE/ 84-85

G. S. PATEL

Chairman

June, 1984

Dear

Please refer to our earlier letter dated May 24, 1984 whereby we had sent you a copy of Notification dated May 17, 1984 issued by the Government of India in connection with the set up of the High Powered Committee to review the working of the Stock Exchanges in India. We had asked therein for your views/observations, etc. on the terms of reference of the Committee. With your knowledge, experience, understanding and wealth of information at your command, it should not be difficult for you to deal with the same expeditiously. Perhaps, you may have, by now, already dealt with some of the items of our terms of reference. However, we send herewith a preliminary questionnaire to facilitate your task in the matter. You will appreciate that this is a tentative questionnaire prepared by us. If you wish to furnish any further information, which you think is relevant for the consideration of the terms of reference, you may please let us have the same. Please note that at a later date, we may require further information on all or any term of reference and trust that you will be good enough to furnish the same.

We request you to treat the matter as urgent. We shall appreciate if the preliminary information asked for in the questionnaire is forwarded to us not later than 7th July, 1984.

Thanking you in anticipation and with kind regards,

Yours sincerely.  
(G. S. PATEL)

Send to all the Stock Exchange Presidents.

**Questionnaire sent to all the Stock Exchanges**

1. (a) Please give us an exhaustive note on the present functioning of your Stock Exchange including the problems faced, weaknesses noticed by you, etc. to ensure that your Stock Exchange functions smoothly and is able to cope up with the crises, if any, which may, off and on, disrupt its working. Please also suggest the areas in which you recommend improvements in its working.

(b) In the light of the planned economic development of the country what role do you visualise for the Stock Exchanges in the socio-economic transformation of the country? How and in what direction would you like to gear-up your Stock Exchange to meet the challenges of the future having regard to the volume of transactions, manpower requirements, spread of investment habits among people, etc. in the next decade? Have you prepared any working paper on the subject for the consideration of your members? If so, please send us a copy. If not, please convey your views in the matter to us.

(c) What type of services are provided by your Stock Exchange to the general investing public? Have you taken any steps on your own for such a pilot study on the types of investors and their preferences in semi-urban and rural areas to tap the savings potential therein? If so, please send a copy thereof. If not, what steps according to you should be taken to educate potential investors in the semi-urban and rural areas? What role your Stock Exchange can play in this area?

2. Are you satisfied with the present form of your organisation? If not, what problems do you face on this account and what changes would you recommend therein? Some of the other Stock Exchanges do not have the type of organisation you have. What type of organisation, in your view, would be ideal?

3. Please give us a note on the existing procedures and documentation relating to stock transactions with specimen of forms and documents used (we had asked for this in our earlier letter under reference). In the light of your experience, what changes would you recommend therein to simplify the same—procedures and documentation—not only to eliminate or minimise the delays involved but also ensure smooth working of the Exchanges over the next decade.

4. Do you think that the present byelaws and regulations of the Stock Exchanges require a fresh look to ensure smooth working of the Stock Exchanges, to avoid disruption by recurrent crises and to handle efficiently a much larger volume of securities? If so, which of them should be changed or amend? Please give necessary information in

a tabular form giving relevant byelaw or regulation, the change required and the reasons, in brief, for such a change. Please also supply a copy of your byelaws brought upto date. If any of your floor or other practices differ from those in the byelaws, please make a special mention about them.

5. How many members you have and how many of them are :

- (a) Active—Non Active.
- (b) Pure investment brokers—Jobbers—Both Jobbers & broker.
- (c) How many brokers have been permitted to have sub-brokers? Please also give total number of sub-brokers working in your Stock Exchange.
- (d) What type of services are provided by your own members to the general public? What obstacles do they face?
- (e) How many members have their own libraries or proper set-up to study the balance-sheets, call to service the general public, etc.?
- (f) How many members issue literature such as circulars, pamphlets, etc. for the education of their clients and investing public?
- (g) How many members have employed professional like Chartered Accountants, Cost Accountants, Investment Analysts, etc.?
- (h) How many members are graduates? How many are matriculates?
- (i) What is the total clerical strength of all the members? Please give us break-up of the clerical staff employed in the following manner :

Number of members No. of clerical staff employed

|   |               |
|---|---------------|
| — | None          |
| — | One           |
| — | Two           |
| — | Three         |
| — | Four and Five |
| — | Above Five    |

- (j) Are there any members having computer facilities of their own?
- (k) How many employ typists?
- (l) According to you what sort of improvement can be brought about in the membership of the Stock Exchange?
- (m) How much time, out of normal working hours, is taken, on an average, by the members for their clerical work?
- (n) Looking to the expected increase in the volume of work, what sort of increase do you visualise in the membership and its type? Would you advocate a system of agents for the Stock Exchanges? If so, on what basis?
- (o) Have you your own central computer? If so, what type of work is handled by it?

is the work pertaining to all types of securities listed covered? If not, why not? What other type of work can your computer take up?

6. It is stated that much of the information asked for, for listing of securities on the Stock Exchanges is quite redundant and leads to unnecessary extra labour and undue delays. Do you subscribe to this view? What changes or modifications or additions would you recommend to simplify or to minimise queries raised and, at the same time to make them useful and exhaustive enough for the purpose in future? From your experience so far, do you think that the listing agreements between the companies and the Stock Exchanges require a fresh look? If so, in what areas and why? Please also supply a schedule of listing fees and other fees. It is stated that the cost of public issue is rather high. What according to you should be the maximum reasonable cost of public issue and how it could be achieved? Also what measures do you recommend for minimising the cost of public issues?

7. Do you think that it is high time that a code of conduct is evolved for the members of the Stock Exchanges to protect their interests as well as the interests of the investors? Will you please frame such a draft code of conduct and let us have your views regarding machinery and measures you would propose to implement the same? What are your views in connection with the floatation of the customers protection fund, its constitution and the objects, etc.? Would you advocate insurance protection of your members in the light of the recent crises, difficulties and problems encountered in some of the Stock Exchanges? If so, what sort of insurance cover do you recommend?

8. Please give us a note on the position of premises occupied by you. Are the premises freehold/leasehold (if so, the term of the lease)/rented/owned? We would particularly like you to have the information as under :

- (i) Source of recurring revenue and capital receipts;
- (ii) Accounts for last five years;
- (iii) Number of members, details of increase in the past and scope for increasing the membership;
- (iv) Requirement of built up area for members and for other requirements of your Stock Exchange;
- (v) Details of volume of transactions in the last five years in rupees and volume contemplated in the next ten years;
- (vi) A note on the acquisition/construction and financing of the premises by your Stock Exchange in the past and the problems faced by you in this regard.
- (vii) What methods would you recommend for financing addition acquisition of premises?



ANNEXURE 2

High Powered Committee  
on Stock Exchanges  
C/o. Unit Trust of India  
13, New Marine Lines,  
Bombay-400020

Ref. SE/ 84-85

G. S. PATEL  
Chairman

1984

Dear Sir,

As you are aware, the Government have appointed a High Powered Committee to make a comprehensive review of the functioning of the Stock Exchanges in India and to make recommendations to the Government in the matter.

The terms of reference of the Committee are enclosed herewith for your ready reference.

As a prominent industrialist and person having considerable knowledge, experience and understanding of the forces at work in the national economy, in general, and in the industry, finance and capital markets, in particular, the Committee would welcome your views/observations/suggestions on some of the terms of reference which you may like to deal with, at an early date. The Committee would greatly value and appreciate your cooperation and assistance in the finalisation of its Report.

At a later date, we may have to request you, if necessary, to discuss with us some of the points arising from your own views/observations and suggestions from others which may have emerged from our deliberation and discussions with them.

We shall be grateful if you could kindly arrange to send a copy of your considered views/observations/suggestions on the subject to each of the following :

1. Shri Paul Joseph,  
Member-Secretary,  
Joint Director (SE),  
Department of Economic Affairs,  
Ministry of Finance,  
New Delhi-110001
2. Shri Gircesh Bhagat,  
Officer on Special Duty to the Committee  
on Stock Exchanges,  
Unit Trust of India,  
13, New Marine Lines,  
Bombay-400020

A small questionnaire particularly on which we would welcome your views/opinions is also enclosed herewith for your doing the needful.

Thanking you and with kind regards.

Yours sincerely,  
(G. S. PATEL)

Sent to Individuals/Industrialists

सत्यमेव जयते

### ANNEXURE 3

High Powered Committee  
on Stock Exchanges,  
Cio. Unit Trust of India  
13, New Marine Lines,  
Bombay-400020

Ref. SE/ 184-85

May , 1984

G. S. PATEL  
Chairman

Sent to Bodies/Institutions/Corporations, etc.

Dear Sir,

As you are aware, the Government have appointed a High Powered Committee to make a comprehensive review of the functioning of the Stock Exchanges in India and to make recommendations to the Government in the matter.

\*\*\*The terms of reference of the Committee are enclosed herewith for your ready reference.

The Committee would welcome your views/observations/suggestions on some of the terms of reference which you may like to deal with at an early date. The Committee would greatly value and appreciate your cooperation, assistance and help in the finalisation of its Report.

At a later date, we may have to request you, if necessary, to discuss with us some of the points arising from your own views/observations and suggestions from others which may have emerged from our deliberations and discussions with them.

We shall be grateful if you could kindly arrange to send a copy of your considered views/observations/suggestions on the subject to each of the following :

1. Shri Paul Joseph,  
Member-Secretary,  
Joint Director (SE),  
Department of Economic Affairs,  
Ministry of Finance,  
New Delhi-110001
2. Shri Gireesh Bhagat,  
Officer on Special Duty to the Committee  
on Stock Exchanges,  
Unit Trust of India,  
13, New Marine Lines,  
Bombay-400020

\*\*\*A small questionnaire particularly on which we would welcome your views/opinions, is also enclosed herewith for your doing the needful.

Thanking you and with kind regards,

Yours sincerely,  
(G. S. PATEL)

### GENERAL QUESTIONNAIRE

1. Would you like to say something about the functioning of the Stock Exchanges?

2. What, according to you, are the basic problems and weaknesses of the Stock Exchanges and how could they be corrected?

3. Have you any suggestions for solving problems like excessive speculation, trading in unlisted shares, blank transfers and stamping of transfer deeds, etc.?

4. What steps according to you, should be taken to encourage shall investors particularly, in semi-urban and rural areas to invest in industrial securities and also create investment consciousness?

5. What measures would you recommend to improve the overall services to the investors?

6. Do you think that the existing system of organisation and management of Stock Exchanges leaves much to be desired? If so, what improvements do you suggest therein?

7. There are 13 Stock Exchanges in the country. Some are voluntary Associations, some are Public Limited Companies, some are Companies Limited by Guarantee. How, in your view, the functioning of all the Stock Exchanges and their organisational structure might be made uniform? In any case, is it necessary to bring about such a uniformity?

8. Are any improvements necessary in the existing system of membership of the Stock Exchange? If so, how can they be brought about?

9. Are the rules and regulations regarding listing of securities and listing agreements between the Stock Exchange and the Companies satisfactory? What suggestions can you make to improve upon them and or simplify them?

10. It is stated that cost of public issue of capital is rather high. What according to you should be the maximum reasonable cost of public issue and how it could be achieved?

11. What sort of a code of conduct would you advocate for the members of the Stock Exchanges to protect the interest of the investors/members of the Stock Exchanges?

12. Any other suggestions on any other matter vital for the healthy functioning and growth of the Stock Exchanges.

## ANNEXURE 4(A)

### List of Eminent Individuals and Industrialists

#### EMINENT INDIVIDUALS

- \*1. Dr. Adiseshian Malcom S.
- \*\*2. Shri Ajmera Satish.
3. Shri Amerchand Jayant K.
- \*4. Shri Anand Sunil Garg.
5. Shri Bansal R. N.
- \*\*6. Shri Bhandari R. M
- \*7. Shri Bhasin H. C.
8. Shri Bhatnagar K. S.
- \*9. Shri Bhattacharya S K.
- \*10. Shri Bhatt R. S.
11. Shri Brahmanand P. R.
- \*12. Shri Chitale M. P.
- \*13. Shri Costa E. P. W. da.
14. Shri Daruwalla Rusi K.
15. Shri Dasgupta M. R.
- \*16. Shri Davar D. N.
- \*17. Shri Davar Nusli
- \*18. Shri Dixit V
19. Fazal Mohd
- \*20. Shri Goenka Ashok.
21. Shri Gosai Talkasi
- \*\*22. Shri Guhan S.
- \*23. Shri Gupta A. S.
- \*24. Shri Hazari R. K.
- \*\*25. Shri Hingorani N. L.
26. Dr. Honavar R. M.
- \*\*27. Shri Jha L. K.
- \*28. Shri Joshi I. R.
- \*\*29. Prof. Khusroo A. M.
- \*30. Shri Kothari H. C.
31. Shri Krishnan N. C.
- \*\*32. Prof. Kuchhal K. C.
33. Shri Lodha R. S.
- \*34. Dr. Machiraju H. R.
- \*35. Shri Malhotra K. N.
36. Shri Mehta Bansi
- \*\*37. Dr. Mehta F. A.
- \*38. Shri Mehta S. S.

#### EMINENT INDUSTRIALISTS

- \*1. Shri Apte M. L.
2. Shri Arunachalam A M M.
- \*\*3. Shri Bajaj Rahul.
4. Shri Bajaj Ramakrishna.
- \*\*5. Shri Balakrishnan L. G.
6. Shri Bhaba K. H.
- \*7. Shri Birla Aditya V
8. Shri Birla Ashok.
9. Shri Birla B. K.
- \*10. Shri Birla G. P.
- \*11. Shri Birla K. K.
12. Shri Choksi C. C.
- \*13. Shri Chowgule V. D.
- \*\*14. Shri Dalal Jayant.
- \*\*15. Shri Dalmia M. H.
16. Shri Devarajulu G. K.
17. Shri Divan J. H.
- \*18. Shri Doshi Vinod L.
- \*19. Shri Firodia H K.
20. Shri Ganguli A. S.
- \*21. Shri Garware B. D.
- \*22. Shri Ghia B. M.
23. Shri Goenka J. P.
24. Shri Gulabchand Bahubali.
25. Shri Guzder J. N.
26. Shri Harivallabhdas Jaykrishna.
- \*27. Shri Hydari Akbar.
28. Shri Jhunjhunwala L. N.
29. Shri Kalyani B. N.
- \*\*30. Shri Kasturbhai Siddharth.
- \*\*31. Shri Khaitan B. M.
32. Shri Khatau C. M.
33. Shri Khosla K. G.
- \*34. Shri Kirloskar C. S.
- \*35. Shri Kumar M. K.
- \*\*36. Shri Lakhanpal V. K.
37. Shri Lalbhai Arvind.
38. Shri Mafatlal Arvind.



## EMINENT INDIVIDUALS

- \*\*39. Prof. Menon M. G. K.
- \*40. Prof. Merchant K. T.
- \*41. Shri Mody Minoo.
- \*42. Shri Mukherjee A. C.
- 43. Shri Mukherjee J. P.
- 44. Shri Mukhi M. D.
- \*45. Dr. Nigam Raj K.
- \*\*45(a) Shri Nariman F. S.
- \*\*46. Dr. Ojha P. D.
- \*\*47. Prof. Oza A. N.
- 48. Shri Pai N. N.
- \*\*49. Shri Palkhivala N. A.
- \*50. Shri Parekh H. T.
- \*\*51. Shri Pasticha Baldev
- 52. Shri Patwardhan M. S.
- \*\*53. Dr. Pendse D. R.
- 54. Shri Piparaiya Ram K.
- \*\*55. Shri Ponnappa K. C.
- \*56. Shri Punja M. R. B.
- \*57. Shri Rajpal L. L.
- \*\*58. Shri Randeria B. C.
- \*\*59. Dr. Rao C. H. Hanumantha.
- 60. Dr. Rao V. K. R. V.
- \*61. Shri Rudramoorthy B.
- 62. Shri Sakhaji Ratilal
- 63. Dr. Sakhalkar S. B.
- 64. Shri Saxena J. N.
- 65. Dr. Sengupta N. K.
- \*\*66. Shri Shah B. K.
- \*\*67. Shri Shah R. C.
- 68. Shri Shaubhag A. N.
- \*69. Shri Shroff Minoo R.
- \*70. Shri Simha S. L. N.
- 71. Shri Singh B. B.
- 72. Dr. Singh Manmohar..
- \*73. Shri Sonde V. D.
- 74. Shri Talwar R. K.
- 75. Prof. Taraporevala Rusi J.
- 76. Shri Vora V. H.
- 77. Shri Yessaswy S. S.

## EMINENT INDUSTRIALISTS

- 39. Shri Mafatlal Yogendra.
- \*40. Shri Mahindra Keshub.
- 41. Shri Modi K. N.
- \*\*42. Shri Mody R. P.
- \*\*43. Shri Mudaliar L. A.
- 44. Shri Nair T. K. A.
- 45. Shri Nanda H. P.
- 46. Shri Nevatia R. P.
- 47. Shri Oberoi M. S.
- 48. Shri Oswal A. K.
- \*\*49. Shri Paul Surrendra.
- \*\*50. Shri Piramal Ashok G.
- \*\*51. Shri Raju K. V. K.
- 52. Shri Ram Bharat.
- 53. Dr. Ram Charat.
- 54. Shri Rao M. Raghavendra.
- \*55. Shri Sabharwal M. M.
- \*56. Shri Sapru J. N.
- \*\*57. Shri Sarabhai Gautam.
- \*58. Shri Seth D. S.
- \*59. Shri Setna J. K.
- \*60. Shri Srinivasan K. V.
- 61. Shri Shah Viron J.
- 62. Shri Shahany R. J.
- \*\*63. Shri Shroff G. C.
- 64. Shri Singh Bhai Mohan.
- 65. Shri Singhania Vijaypat.
- \*\*66. Shri Tata J. R. D.
- \*\*67. Shri Tata N. H.
- \*\*68. Shri Thackersey Sudhir.
- \*\*69. Shri Thapar L. M.
- \*70. Shri Vatcha D. N.
- 71. Shri Wardekar A. S.



\*Recommendations/Suggestions received.

\*\*Acknowledged.

ANNEXURE 4(B)

List of Economic Advisers to the Government of India from whom views were sought by the Stock Exchange Division Ministry of Finance on behalf of the Committee.

- |                                                                                                                                    |                                                                                  |
|------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|
| 1. Dr. Dipak Nayyar,<br>Economic Adviser,<br>Ministry of Commerce.                                                                 | 4. Shri Manmohan Singh,<br>Additional Economic Adviser,<br>Ministry of Industry. |
| 2. Shri H. L. Chawla,<br>Economic and Statistical Adviser,<br>Directorate of Economics and Statistics,<br>Ministry of Agriculture. | 5. Dr. M. S. Ahluwalia,<br>Additional Secretary,<br>Prime Minister's office.     |
| 3. Shri V. G. Bhatta,<br>Adviser,<br>Planning Commission.                                                                          | *6. Shri Karnail Singh,<br>Joint Secretary<br>Ministry of Labour.                |

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\*Recommendations/Suggestions received.



# ANNEXURE 4(C)

## List of Merchant Bankers and Financial Consultant

- |                                                                                                                                         |                                                                                                                                        |
|-----------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| 1. M/s. PAM Financial Consultants Pvt. Ltd.,<br>Rajgir Chambers, 5th floor,<br>12/14, Shahid Bhagat Singh Road,<br>Bombay-400023.       | **14. Shri M. Shankaran,<br>Ramshankar & Co.,<br>P. B. No. 1573, 47 Second Line Beach,<br>Madras-600001.                               |
| 2. M/s. DSP Financial Consultants Ltd.,<br>914, Raheja Chambers,<br>213, Backbay Reclamation,<br>Bombay-400021.                         | *15. J. M. Financial & Inv. Consultancy Services<br>(P) Ltd.,<br>141, Maker Chambers III, 13th floor,<br>Nariman Point, Bombay-400021. |
| **3. M/s. Champaklal Investment & Financial<br>Consultancy Ltd.,<br>Oriental Chambers, 1st floor,<br>703, Anna Salai,<br>Madras-600006. | *16. Batlivala & Karani,<br>37/1700, A-9, Swapna Buildings,<br>Cochin-682031.                                                          |
| 4. MBD Services Pvt. Ltd.,<br>Manekjee Wadia Bldg., 4th floor,<br>127 M. G. Road,<br>Bombay-400023.                                     | *17. Pushkarlal Ghudawala,<br>Director,<br>Former President of MP SE,<br>Indore.                                                       |
| 5. M/s. V. B. Desai,<br>Bhupen Chambers,<br>Ground floor, Dalal Street,<br>Bombay-400023.                                               | *18. G. M. Basu,<br>7, Lyons Range,<br>Calcutta-700001.                                                                                |
| 6. M/s. Dalal & Broacha,<br>507, Maker Chambers No. 5,<br>221, Nariman Point,<br>Bombay-400021.                                         | *19. Ketan M. Parekh,<br>Member of UP S.E. Assn.,<br>Kanpur.                                                                           |
| 7. M/s. Porecha Brothers,<br>19, Stock Exchange New Building,<br>Bombay Samachar Marg,<br>Bombay-400023.                                | *20. Shri K. C. Shah,<br>Member of Pune S.E.,<br>204, Noma Peth, IIIrd floor,<br>Hindmata Chowk, Vithal Niwas,<br>Poona-4110002.       |
| *8. M/s. C. Mackertich,<br>7, Lyons Range,<br>Calcutta-700001.                                                                          | *21. M/s. Chimanlal Maneklal,<br>11, Rajabhadur Mansion,<br>1st floor, 45, Tamarind St.<br>Fort, Bombay-400023.                        |
| *9. M/s. Place, Siddons & Gough (P.) Ltd.,<br>6 Lyons Range,<br>Calcutta-700001.                                                        | *22. Adolf Pinto,<br>Share & Stock Broker,<br>Thackins House, General Thimmaya Road,<br>Pune-411001.                                   |
| 10. M/s. Bharat Bhushan & Co.,<br>19, Stock Exchange New Building,<br>H-45, Asaf Ali Road,<br>New Delhi-110002.                         | **23. B. D. Agarwal & Co.,<br>Member of Delhi S.E. Assn. Ltd.,<br>Laxman House, 9/3 Asaf Ali Road,<br>New Delhi-110002.                |
| *11. M/s. Vinod Kumar & Co.,<br>Stock Exchange Building,<br>A-6, Asaf Ali Road,<br>New Delhi-110002.                                    | *24. Dhirajlal Maganlal Sons,<br>Share & Stock Broker,<br>S.E. Tower, 11th floor,<br>R. No. 1103, Dalal Street,<br>Bombay-400023.      |
| *12. M/s. J. C. Mehta & Co.,<br>Stock Exchange Building,<br>12/3, Asaf Ali Road,<br>New Delhi-110002.                                   | *25. FICOM Financial Consultants,<br>818, Tulsani Chambers,<br>212, Nariman Point,<br>Bombay-400021.                                   |
| 13. M/s. Laxinarayan Rath,<br>Sultan Bazar,<br>4-5-195 Hashmat Guri,<br>Hyderabad-500001.                                               | *26. Shri K. L. Kapur,<br>Member,<br>Calcutta Stock Exchange,<br>Calcutta                                                              |

\*Recommendations/Suggestions received

\*\*Acknowledged.

# ANNEXURE 4(D)

## List of Federation|Chambers of Commerce & Industry

- |                                                                                                                                    |                                                                                                                                     |
|------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|
| *1. Federation of India Chamber of Commerce & Industry,<br>Federation House,<br>Tansen Marg,<br>New Delhi 110001.                  | *12. Chas Bokaro Chamber of Commerce & Industries,<br>Chas 827013 (Dhanbad Dist.),<br>Bihar.                                        |
| *2. Bombay Chamber of Commerce & Industry<br>Mackinon Mackenzie Building,<br>Ballard Estate,<br>Bombay 400038.                     | *13. Chotanagpur Chamber of Commerce & Industries,<br>Main Road, Ranchi-834001,<br>Bihar.                                           |
| 3. Northern India Chamber of Commerce & Industry<br>1014, Sector 21 B,<br>Chandigarh 160017.                                       | 14. Eastern Bihar Divisional Chamber of Commerce & Industries,<br>Bhagalpur-812002.                                                 |
| *4. Associated Chamber of Commerce & Industry of India,<br>Allahabad Building,<br>17 Parliament Street,<br>New Delhi 110001.       | 15. Koshi Divisional Chamber of Commerce & Industry,<br>Saharsa-852201.                                                             |
| **5. Gujarat Chamber of Commerce & Industry,<br>Gujarat Chamber Building,<br>Ranchhodlal Road,<br>Ahmedabad 380009.                | *16. North Bihar Chamber of Commerce & Industry,<br>Muzaffarpur-842001.                                                             |
| *6. Madras Chamber of Commerce & Industry,<br>90-92, Dare House Annexe,<br>44 Moore Street,<br>Madras 600001.                      | 17. North Eastern Bihar Chamber of Commerce & Industries,<br>Katihar-854105                                                         |
| 7. Amalapuram Chamber of Commerce & Industry,<br>Amalapuram 533201,<br>(East Godavari Dist.),<br>Andhra Pradesh.                   | 18. Patna Divisional Chamber of Commerce & Industry,<br>S. P. Varma Road,<br>Patna-800001.                                          |
| 8. Vijayawada Chamber of Commerce & Industry,<br>42 Kaleswararas Market,<br>Vijayawada-520001 (A.P.)                               | 19. Shahbad Chamber of Commerce & Industry,<br>Jail Road,<br>Arrals 802 301                                                         |
| 9. West Godavari Federation of Chambers of Commerce & Industry,<br>Plantains Bazar, Main Road,<br>Eluru-534001 (A.P.)              | *20. Punjab, Haryana & Delhi Chamber of Commerce & Industry,<br>Phelps Building,<br>9-A Connaught Place,<br>New Delhi-110001.       |
| 10. Assam Chamber of Commerce & Industry,<br>Morello Building,<br>Shillong-793001.                                                 | 21. Goa Chamber of Commerce & Industry,<br>P. Box No. 59,<br>Panaji-403001.                                                         |
| 11. Federation of Andhra Pradesh Chambers of Commerce & Industry,<br>11-6-841,<br>Red Hills, Post Box No. 14,<br>Hyderabad-500004. | 22. Southern Gujarat Chamber of Commerce & Industry,<br>Samrudhi,<br>Nanpura,<br>Surat-395001.                                      |
|                                                                                                                                    | 23. Ludhiana Chamber of Commerce & Industry<br>E-23 Industrial Area,<br>Yamunanagar-135001.                                         |
|                                                                                                                                    | 24. Kashmir Chamber of Commerce & Industry,<br>Residency Road,<br>Srinagar-190001.                                                  |
|                                                                                                                                    | 25. All India Sindhi Chamber of Commerce & Industry,<br>6, Parasram Chambers Bldg.,<br>Mirghawad, Reodi Bazar,<br>Ahmedabad-380001. |





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|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>26. Broach Chamber of Commerce &amp; Industry,<br/>Lallubhai Chakla,<br/>Bharoach-392001.</p> <p>27. Federation of M.P. Chambers of Commerce<br/>&amp; Industry,<br/>33, Malaviya Nagar,<br/>Bhopal-462003.</p> <p>28. Chamber of Commerce &amp; Industry,<br/>13, Kadiresan Koil Street,<br/>Kovilpatty-627701.</p> <p>*29. Bharat Chamber of Commerce<br/>"Bharat Chambers",<br/>28, Hemanta Basu Sarani,<br/>Calcutta-700001.</p> | <p>*30. The Bengal Chamber of Commerce,<br/>6 Netaji Subhas Road,<br/>Calcutta-700001.</p> <p>*31. Bengal National Chamber of Commerce &amp;<br/>Industry,<br/>23, R. N. Mookerjee Road,<br/>Calcutta-700001.</p> <p>*32. The Indian Merchants' Chambers,<br/>76, Veer Nariman Road, Churchgate<br/>Bombay-400020.</p> |
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\* Recommendations/Suggestions received.

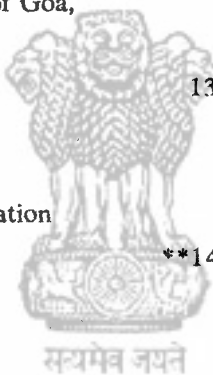
\*\* Acknowledged.



## ANNEXURE 4 (E)

### List of State Investment/Industrial Corporations

- |                                                                                                                                                                                                              |                                                                                                                                                                                       |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>**1. The Managing Director,<br/>Andhra Pradesh Industrial,<br/>Development Corporation Ltd.,<br/>Parishrama Bhavanam,<br/>5-9-58/B, Fateh Maidan Road,<br/>Hyderabad-500029.</p>                          | <p>*9. The Managing Director,<br/>Jammu &amp; Kashmir State Industrial Deve-<br/>lopment Corporation Ltd.,<br/>Drabu House Ram Bagh,<br/>Post Bag No. 26,<br/>Srinagar, Kashmir.</p>  |
| <p>**2. The Managing Director,<br/>Assam Industrial Development,<br/>Corporation Ltd.,<br/>R. G. Baruah Road,<br/>Gauhati-781024.</p>                                                                        | <p>*10. The Managing Director,<br/>Karnataka State Industrial Investment &amp; .<br/>Development Corporation Ltd.,<br/>MSIL House, 36, Cunningham Rd.,<br/>Bangalore-560052.</p>      |
| <p>3. The Managing Director,<br/>Bihar State Credit &amp; Investment,<br/>Corporation Limited,<br/>Jeevan Jyoti Bhawan,<br/>S. P. Verma Road,<br/>Patna-800001.</p>                                          | <p>11. The Managing Director,<br/>Kerala State Industrial Development Corpo-<br/>ration Ltd.,<br/>T.C. 10/402-1,<br/>Keston Road, Kawdiar,<br/>Trivandrum-695003.</p>                 |
| <p>4. The Managing Director,<br/>Economic Development Corporation of Goa,<br/>Daman and Diu Ltd.,<br/>Shree Saraswati Mandir Bldg.,<br/>2nd floor, 18th June Road,<br/>P. B. No. 316,<br/>Panaji-403001.</p> | <p>12. The Managing Director,<br/>Madhya Pradesh Audyogik Vikas Nigam<br/>Ltd.,<br/>Panchanan, 2nd floor,<br/>Malviya Nagar,<br/>Bhopal-462003.</p>                                   |
| <p>5. The Managing Director,<br/>Gujarat Industrial Investment Corporation<br/>Ltd.,<br/>Natraj Chambers,<br/>4th floor, Ashram Road,<br/>Navrangpura,<br/>Ahmedabad-380009.</p>                             | <p>13. The Managing Director,<br/>Meghalaya Industrial Development Corpo-<br/>ration Ltd.,<br/>Kismat Upland Road,<br/>Laitumkhras,<br/>Shillong-793003.</p>                          |
| <p>6. The Managing Director,<br/>Haryana State Industrial Development Cor-<br/>poration Ltd.,<br/>S. C. O. 40-41, Sector 17-A,<br/>Post Box No. 22,<br/>Chandigarh-160017.</p>                               | <p>**14. The Managing Director,<br/>Nagaland Industrial Development Corpora-<br/>tion Ltd.,<br/>Post Box No. 5, Dimapur,<br/>Nagaland.</p>                                            |
| <p>7. The Managing Director,<br/>Himachal Pradesh Mineral &amp; Industrial<br/>Development Corporation Ltd.,<br/>'Himrus', Circular Road,<br/>Simla-171001.</p>                                              | <p>**15. The Managing Director,<br/>Pondicherry Industrial Promotion Develop-<br/>ment &amp; Investment Corporation Ltd.,<br/>38, Romain Rolland Street,<br/>Pondicherry-605001.</p>  |
| <p>8. The Managing Director,<br/>Industrial Promotion &amp; Investment Corpo-<br/>ration of Orissia Ltd.,<br/>IPICOL House, Janpath,<br/>Bhubaneswar-751007.</p>                                             | <p>*16. The Managing Director,<br/>Pradeshia Industrial and Investment Cor-<br/>poration of Uttar Pradesh Ltd.,<br/>Jawahar Bhawan (Annexe),<br/>Ashok Nagar,<br/>Lucknow-226001.</p> |
|                                                                                                                                                                                                              | <p>17. The Managing Director,<br/>Punjab State Industrial Development Cor-<br/>poration Ltd.,<br/>SCO. 54, 55 &amp; 56,<br/>Sector 17-A,<br/>Chandigarh-160017.</p>                   |



- |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>18. The Managing Director,<br/>Rajasthan State Industrial Development and<br/>Investment Corporation Ltd.,<br/>Udyog Bhawan,<br/>Tilak Marg,<br/>Jaipur-302005.</p> <p>19. The Managing Director,<br/>State Industrial &amp; Investment Corporation<br/>of Maharashtra Ltd.,<br/>Nirmal Building, 1st floor,<br/>Nariman Point,<br/>Bombay-400021.</p> <p>**20. The Managing Director,<br/>State Industries Promotion Corporation of<br/>Tamil Nadu Ltd.,<br/>51 and 52 Greaves Road,<br/>Madras-600006.</p> <p>21. The Managing Director,<br/>Sikkim Industrial Development and Invest-<br/>ment Corporation Limited,<br/>M.G. Marg, Gangtok,<br/>Sikkim-737101.</p> <p>22. The Managing Director,<br/>West Bengal Industrial Development Corpo-<br/>ration Ltd.,<br/>23 A &amp; B, Netaji Subhas Road,<br/>Calcutta-700001.</p> | <p>23. The Managing Director,<br/>Arunachal Pradesh Industrial Development<br/>&amp; Financial Corporation Ltd.,<br/>Itanagar,<br/>Arunachal Pradesh.</p> <p>24. The Managing Director,<br/>Tripura Industrial Development Corpora-<br/>tion Limited,<br/>12, Office Lane, 1st floor,<br/>Agartala-799001, Tripura.</p> <p>25. The Managing Director,<br/>Mizoram Small Industries Development<br/>Corporation Ltd.,<br/>Aizawl,<br/>Mizoram.</p> <p>26. The Managing Director,<br/>Manipur Small Industries Corporation Ltd.,<br/>Porompat,<br/>Imphal, Manipur.</p> |
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\* Recommendations/Suggestions received.

\*\* Acknowledged.



# ANNEXURE 4 (F)

## List of Commercial Banks having Merchant Banking Division

- \*1. The Chief Executive,  
The Chartered Bank,  
P. O. Box 843, 2nd floor,  
Chartered Bank Building,  
23-25 M. G. Road,  
Bombay-400023.
- \*2 The Chief Executive Officer,  
The Hongkong & Shanghai Banking Corpn.,  
314, Dr. D. N. Road,  
Bombay-400001
- \*3. The Chairman,  
Indian Overseas Bank,  
762 Anna Salai,  
Madras-600002.
4. The Chairman,  
United Commercial Bank,  
Mafatlal Centre, 2nd floor,  
Nariman Point,  
Bombay-400021. } The Chairman & M. D.,  
United Commercial Bank,  
10, Brabourne Road,  
CALCUTTA-700001.
- \*\*5. The Chairman,  
Bank of Maharashtra,  
Lokmangal,  
1501, Shivajinagar,  
Puna-411005.
- \*6. The Chief Executive Officer,  
American Express International Banking  
Corp.,  
Dalamal Towers,  
Nariman Point,  
Bombay-400021.
- \*7. The Chairman,  
Allahabad Bank,  
18, Dr. Gopalrao Deshmukh Marg,  
Bombay-400026.
8. The Chairman,  
Central Bank of India,  
M. G. Road,  
Bombay-400023.
- \*9. The Chairman,  
Bank of India,  
70-80 M. G. Road,  
Bombay-400023.
- \*10. The Chairman,  
Dena Bank,  
Investment Dept.,  
17 Horniman Circle,  
Bombay-400023.
11. The Chairman,  
Punjab National Bank,  
PNB House, Sector 17-B,  
Chandigarh-160017. } 5, Parliament Street  
NEW DELHI.



- \*12. The Chairman,  
State Bank of India,  
New Admn. Bldg.,  
Madam Cama Road,  
Bombay-400021.
- 13. The Vice President,  
CITYBANK N. A,  
293 D. N. Road,  
Bombay-400001.
- 14. The Manager,  
Grindlays Bank p.l.c.,  
Merchant Banking Division,  
270 D. N. Road,  
Bombay-400001.

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\* Recommendations/Suggestions received.

\*\* Acknowledged.



## ANNEXURE 4 (G)

### List of Editors and Financial Writers

- |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>1. The Editor,<br/>The Times of India,<br/>Times of India Bldg.,<br/>Dr. D. N. Road,<br/>Bombay-400001.</p> <p>2. The Editor,<br/>Indian Express,<br/>Express Towers,<br/>P. B. No. 867,<br/>Nariman Point,<br/>Bombay-400021.</p> <p>*3. The Editor,<br/>The Daily,<br/>Cawasji Patel Street,<br/>Bombay-400023.</p> <p>4. The Editor,<br/>Free Press Journal,<br/>Free Press House,<br/>Free Press Journal Marg,<br/>215 Nariman Point,<br/>Bombay-400021.</p> <p>5. The Editor,<br/>Vyapar,<br/>Janambhoomi Chambers,<br/>Ghoga Street,<br/>Bombay-400023.</p> <p>6. The Editor,<br/>Business World,<br/>145 Atlanta, 209,<br/>Ceremonial Boulevard,<br/>Nariman Point,<br/>Bombay-400021.</p> <p>7. The Editor,<br/>Business India,<br/>Wadia Building,<br/>17/19 Dalal Street,<br/>Bombay-400023.</p> <p>8. The Editor,<br/>Commerce,<br/>Manek Mahal,<br/>90 Veer Nariman Rd.,<br/>Bombay-400020.</p> <p>9. The Editor,<br/>Economic &amp; Political Weekly,<br/>Skylark,<br/>284, Shahid Bhagat Singh Rd.,<br/>Bombay-400039.</p> <p>**10. The Editor,<br/>Update,<br/>Botawala Building,<br/>8 Horniman Circle,<br/>Bombay-400023.</p> | <p>**11. The Editor,<br/>Fortune India,<br/>Readymoney Mansion,<br/>43, Veer Nariman Road,<br/>Bombay-400023.</p> <p>12. The Editor,<br/>Economic Scene,<br/>Tata Economic Consultancy Service,<br/>Orient House,<br/>Mangalore Street,<br/>Ballard Estate,<br/>Bombay-400038.</p> <p>*13. The Editor,<br/>Bombay-Samachar,<br/>Bombay Samachar Marg,<br/>Horniman Circle,<br/>Bombay-400001.</p> <p>14. The Editor,<br/>Janambhoomi,<br/>Janambhoomi Chambers,<br/>Ghoga Street,<br/>Bombay-400023.</p> <p>15. Shri D. G. Gupte,<br/>Financial Editor,<br/>The Times of India,<br/>Times of India Bldg.,<br/>Dr. D. N. Road,<br/>Bombay-400001.</p> <p>16. Shri Deven Malkan,<br/>Commercial Editor,<br/>Indian Express,<br/>Express Towers, P. B. No. 867,<br/>Nariman Point,<br/>Bombay-400021.</p> <p>*17. Shri Hemant R. Dani,<br/>Commercial Editor,<br/>The Daily,<br/>Cawasji Patel Street,<br/>Bombay-400023.</p> <p>18. Shri S. K. Jhaveri,<br/>Free Press Journal,<br/>Free Press House,<br/>Free Press Journal Marg,<br/>215 Nariman Point,<br/>Bombay-400021.</p> <p>19. Shri Harish M. Bhanot,<br/>Correspondent,<br/>Hindustan Times (Delhi),<br/>Industrial Assurance Bldg.,<br/>Opp. Churchgate Stn.,<br/>Bombay</p> |
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20. Shri V. Venkateswaran,  
Correspondent,  
Hindu (Madras),  
Kasturi Building,  
Jamshedji Tata Road,  
Churchgate,  
Bombay
21. Shri Atmaram Shetye,  
Deputy News Editor,  
Lokasatta,  
Express Towers,  
Nariman Point,  
Bombay-400021.
22. Shri M. K. B. Nair,  
Resident Editor,  
Economic Times,  
Times of India Bldg.,  
Dr. D. N. Road,  
Bombay-400001.
23. Shri A. G. Mathew,  
News Editor,  
Economic Times,  
Times of India Bldg.,  
Dr. D. N. Road,  
Bombay-400001.
- \*\*24. Shri Anil Mehta,  
Special Correspondent,  
Economic Times,  
Times of India Bldg.,  
Dr. D. N. Road,  
Bombay-400001.
25. Shri P. M. Mohammed,  
News Editor,  
Financial Express,  
Express Towers,  
Nariman Point,  
Bombay-400021.
26. Shri. M. D. Dewani,  
City Editor,  
Financial Express,  
Express Towers,  
Nariman Point,  
Bombay-400021.
27. Shri R. C. Murthy,  
Bureau Chief,  
Business Standard (Calcutta)  
145, Atlanta,  
209, Ceremonial Boulevard,  
Nariman Point,  
Bombay-400021.
- \*28. Shri Kantilal Samani,  
C/o Bombay Samachar,  
Bombay Samachar Marg.  
Horniman Circle,  
Bombay-400001.
29. The Editor,  
Eastern Economist,  
United Commercial Bank Bldg.,  
Dr. D. N. Road,  
Bombay-400001.
- \*\*30. The Editor,  
Capital,  
19 R. N. Mukherjee Road,  
Calcutta-700001.
31. Shri Ratilal Sakhaji,  
C/o Janambhoomi,  
Janambhoomi Chambers,  
Ghoga Street,  
Bombay-400023.
32. Shri Talkasi Gosai,  
C/o Janambhoomi,  
Janambhoomi Chambers,  
Ghoga Street,  
Bombay-400023.



\* Recommendations/Suggestions received.

\*\* Acknowledged.

## ANNEXURE 4 (H)

### List of New Companies who made a Public Issue of Capital recently

- |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>1. Apollo Hospitals Enterprise Ltd.,<br/>19 Bishop Gardens,<br/>Raja Annamalaipuram,<br/>Madras-600028.</p> <p>2. Kothari Electronics &amp; Industries Ltd.,<br/>Barton Court Annexe,<br/>84/3 Mahatma Gandhi Road,<br/>Bangalore-560001.</p> <p>*3. ZF Steering Gear (I) Ltd.,<br/>Bombay Poona Road,<br/>Akurli,<br/>Pune-411035.</p> <p>4. Orissa Sponge Iron Ltd.,<br/>'IP ICOL House',<br/>Janapath,<br/>Sahidnagar,<br/>Bhubaneswar-751007.</p> <p>5. Samtel (I) Ltd.,<br/>Bhiwadi Industrial Area,<br/>Distt. Alwar,<br/>Rajasthan.</p> <p>6. Wendt (India) Ltd.,<br/>4th floor,<br/>Devatha Plaza,<br/>Residency Road,<br/>Bangalore-560025.</p> <p>7. Tamilnadu Fluorine &amp; Allied Chemicals<br/>Ltd.,<br/>81-A, Nungambakkam High Road,<br/>Madras-600034.</p> <p>8. Hyderabad Lamps Ltd.,<br/>Srinath Complex,<br/>4th floor,<br/>Sarojini Devi Road,<br/>Secunderabad-500003.</p> <p>9. Panchamahar Cement Co. Ltd.,<br/>51, Alkapuri,<br/>Baroda-390005.</p> <p>*10. Automobile Corporation of Goa Ltd.,<br/>Shree Saraswati Mandir Bldg.,<br/>2nd Floor,<br/>18th June Road,<br/>Panaji-Goa.</p> <p>**11. Delton Cables Limited,<br/>'Delton House',<br/>24 Darya Ganj,<br/>New Delhi-110002.</p> | <p>**12. Asian Hotels Ltd.,<br/>Cama Place,<br/>Ring Road,<br/>R. K. Puram,<br/>New Delhi-110066.</p> <p>13. Bihar Caustic &amp; Chemicals Ltd.,<br/>Garhwa Road,<br/>P. O. Rehla-822124.<br/>Dist. Palamau (Bihar)</p> <p>14. Nagarjuna Signode Ltd.,<br/>8-2-248, Nagarjuna Hill.,<br/>Panjagutta,<br/>Hyderabad-500004.</p> <p>15. Nagarjuna Cements Ltd.,<br/>3-6-147/A/1, Himayatnagar,<br/>Hyderabad-500029.</p> <p>16. Punjab National Fertilisers &amp; Chemicals<br/>Ltd.,<br/>SCO 119-120,<br/>Sector 17-B,<br/>Chandigarh-160017.</p> <p>17. Swiss Jewels (India) Ltd.,<br/>Court Chambers,<br/>New Marine Lines,<br/>Bombay-400020.</p> <p>*18. Tuticorin Alkali Chemicals &amp; Fertilisers<br/>Ltd.,<br/>474, Anna Salai,<br/>Madras-600035.</p> <p>19. Padmatex Engineering Ltd.,<br/>143, Mittal Court,<br/>"A" Wing,<br/>Nariman Point,<br/>Bombay-400021.</p> <p>20. Gujarat Petrosynthese Ltd.,<br/>Thakkar Bldg.,<br/>Shivaji Road,<br/>Baroda-390001.</p> <p>21. Hada Leasing Ltd.,<br/>Sanchi,<br/>77 Nehru Place,<br/>New Delhi-110019.</p> <p>*22. Vanavil Dyes &amp; Chemicals Ltd.,<br/>735 Anna Salai,<br/>Madras-600002.</p> <p>23. Oswal Agro Mills Ltd.,<br/>107-108 Padma Tower,<br/>1.5 Rajindra Place,<br/>New Delhi-110008.</p> |
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24. Raasi Refractories Ltd.,  
1-10-1/4, Ashok Nagar,  
Hyderabad-500020.
25. Dhar Cement Ltd.,  
50, Sitlamata Bazar,  
Indore (M.P.).
26. Khaitan Electricals Ltd.,  
7, Keyatala Lane,  
Calcutta-700029.
- \*\*27. Flakt India Ltd.,  
6 Poonam Bldg.,  
5/2 Russel Street,  
Calcutta-700071.
- \*2. The Chairman,  
Gujarat State Fertiliser Co. Ltd.  
P. O. Fertilisernagar-391750.  
Distt. Baroda.
- \*3. The Chairman,  
Mangalore Chemicals & Fertilisers Ltd.  
10/2 Kasturba Road,  
Bangalore-560001.
4. The Managing Director,  
Punjab Tractors Ltd.  
Sahibzada Ajit Singh Nagar,  
(Near Chandigarh),  
Punjab-160055.

List of Existing Companies

- \*1. The Chairman,  
Gujarat Narmada Valley Fertilisers Co. Ltd.  
P. O. Narmadanagar-392016.  
Distt. Bharuch-Gujarat.

- \*5. The Chairman,  
Narmada Cement Co. Ltd.  
Bakhtawar,  
4th Floor,  
Nariman Point,  
Bombay-400021.

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\* Recommendations/Suggestions received.

\*\* Acknowledged.



ANNEXURE 4 (1)

**List of Presidents on Stock Exchanges**

- |                                                                                                                                                         |                                                                                                                                                                        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| *1. Shri K. K. Shah,<br>President,<br>The Stock Exchange The Ahmedabad and<br>Stock Brokers' Assn. Manek Chowk,<br>Ahmedabad-380001.                    | *8. Shri C. D. Agarwal,<br>President,<br>Hyderabad Stock Exchange Limited,<br>5-1-711/712, Bank Street,<br>Hyderabad-500001.                                           |
| *2. Shri Laldas Jamnadas,<br>President,<br>The Stock Exchange,<br>Phiroze Jeejeebhoy Towers,<br>Dalal Street,<br>Bombay-400023.                         | *9. Dr. Gau Hari Singhania,<br>Uttar Pradesh Stock Exchange Assn. Ltd.,<br>14/76 Civil Lines,<br>Kanpur-208001.                                                        |
| *3. Shri K. V. Shankar,<br>President,<br>Bangalore Stock Exchange Ltd.,<br>First floor, 'M' Block,<br>Unity Buildings, J. C. Road,<br>Bangalore-560002. | *10. Shri S. P. Oswal,<br>President,<br>Ludhiana Stock Exchange Assn. Ltd.,<br>Lajpat Rai Market,<br>Near Clock Tower,<br>Ludhiana-141008.                             |
| *4. Shri S. L. Baondhan,<br>President,<br>Calcutta Stock Exchange Association Ltd.,<br>7, Lyons Range,<br>Calcutta-700001.                              | *11. Shri K. G. Zalani,<br>President,<br>Indore Stock Exchange,<br>Exchange Building,<br>67, Bada Sarafa,<br>Indore-452002.                                            |
| *5. Shri John Koshy,<br>President,<br>Cochin Stock Exchange,<br>Exchange House,<br>37/1003, T. D. Road,<br>Cochin-682001.                               | *12. Shri R. M. Ramnathan,<br>President,<br>Madras Stock Exchange Ltd.,<br>Exchange Building,<br>Post Bag No. 183,<br>16/17 Second Line Beach,<br>Madras-600001.       |
| *6. Shri Amritlal Bajaj,<br>President,<br>Delhi Stock Exchange Assn. Ltd.,<br>3 & 4/4B, Asaf Ali Road,<br>New Delhi-110002.                             | *13. Shri S. S. Marathe,<br>President,<br>Pune Stock Exchange Ltd.,<br>1177 Budhwar Peth,<br>Bank of Maharashtra Building,<br>2nd floor, Bajirao Road,<br>Pune-411002. |
| *7. Shri H. S. Khumbat,<br>Gauhati Stock Exchange Ltd.,<br>Saraf Building,<br>A. T. Road,<br>Gauhati.                                                   |                                                                                                                                                                        |



\*Recommendations|Suggestions received.

## ANNEXURE 4(J)

### List of Firms of Auditors

1. M/s. Sharma S. P. & Co.,  
Chartered Accountants,  
Marlidhar Sharma Road,  
Gauhati.
2. M/s. Jain Kapila Associates,  
Chartered Accountants,  
3000, Bhagat Singh St. No. 11,  
Paharganj, New Delhi-110055.
3. M/s. M. Hingorani & Co.,  
Chartered Accountants,  
35, Netaji Subhash Marg,  
Darya Ganj, New Delhi-110002.
4. M/s. Dhamija Sukhija & Co.,  
Chartered Accountants,  
Room No. 26, Hotel Metro,  
Connaught Place,  
New Delhi-110001.
5. M/s. Ashok Mehta & Associates,  
Chartered Accountants,  
Pahwa Mansion, 1/11B,  
Asaf Ali Road,  
New Delhi-110002.
6. M/s. Anita & Gadia,  
Chartered Accountants,  
F-53 Bhagat Singh Market,  
New Delhi-110001.
- \*7. M/s. Ajaya & Associates,  
Chartered Accountants,  
Delite Cinema Building, 4th floor,  
Asaf Ali Road,  
New Delhi-110002.
8. M/s. Agrawal Chadha & Co.,  
Chartered Accountants,  
A-13/5, Vasant Vihar,  
New Delhi-110057.
9. M/s. Thakur, Vaidyanath Aiyar & Co.,  
Chartered Accountants,  
Thaper House, 124 Janpath,  
New Delhi.
10. M/s. Thakur & Co.,  
Chartered Accountants,  
Flat No. 3, Thaper House,  
124 Janpath,  
New Delhi.
11. M/s. Chokry Bhargawa & Co.  
Chartered Accountants,  
B-102 Himalaya House,  
23 K. G. Marg, New Delhi-110001.
12. M/s. Sampath Kumaran & Co.,  
Chartered Accountants,  
Purushettam Building, 193 Mount Road,  
Madras-600002.
13. M/s. D. Rangaswamy & Co.,  
Chartered Accountants,  
1/142 Mount Road,  
Madras-600006.
14. M/s. N. C. Rajagopal & Co.,  
Chartered Accountants,  
29 V. Krishnaswami Iyer Avenue,  
Luz Church Road, Mylapore,  
Madras-600004.
- \*15. M/s. Price Patt & Co.,  
Chartered Accountants,  
Dinroze Estate,  
79 Mount Road,  
Madras-600002.
- \*\*16. M/s. Kumbhat & Co.,  
Chartered Accountants,  
229 N. S. C. Bose Road,  
Madras-600001.
17. M/s. Krishnaswami M. S. & Rajan,  
Chartered Accountants,  
5 Sambasivam Street,  
Thyagarayanagar,  
Madras-17.
18. M/s. Jagannathan & Sarbeswaran,  
Chartered Accountants,  
32, Nowbrays Road,  
Madras-600018.
- \*19. M/s. U. K. Gnananandulu & Co.,  
Chartered Accountants,  
82, Godown Street,  
Madras-600001.
- \*\*20. M/s. Mukherji S. N. & Co.,  
Chartered Accountants,  
1-B Old Post Office Street,  
Calcutta-700001.
21. M/s. A. S. Gupta & Co.,  
Chartered Accountants,  
10, Old Post Office St.,  
Calcutta-1
22. M/s. Dutta Ghosh & Associates,  
Chartered Accountants,  
406 Rafi Ahmed Kidwai Road,  
Calcutta-700016.
23. M/s. R. G. Choudhury & Co.,  
Chartered Accountants,  
134/4, M. G. Road,  
Room No. 107,  
Calcutta-700007.



24. M/s. Kalyaniwalla & Mistry,  
Chartered Accountants,  
P-7 Mission ROW Extn.,  
Calcutta-700001 W.B.
25. M/s. Bhandari M. C. & Co.,  
Chartered Accountants,  
4, Synagogue St., 2nd floor,  
Calcutta-700001.
- \*\*26 M/s S. R. Batliboi & Co.,  
Chartered Accountants,  
36, Ganesh Chandra Avenue,  
Calcutta-700013.
- 27 M/s. Patki & Soman,  
Chartered Accountants,  
639 Sadashiv Peth,  
Poona-30.
28. M/s. Bhatia S. S. & Co.,  
Chartered Accountants,  
Kanodia Commercial Building,  
Birhana Road,  
Kanpur-U.P.
29. Vishanathan A. R. & Co.,  
Chartered Accountants,  
Orrcee Building No. 1B,  
V. K. Iyenkar Road,  
Bangalore.
30. M/s. Subhash Deshpande & Co.,  
Chartered Accountants,  
13/1, Chhipabakhal 452002,  
Indore.
- 31 M/s. Varma & Varma,  
Chartered Accountants,  
New Road,  
Cochin.
32. M/s. Srivatsan R. & Co.,  
Chartered Accountants,  
Tharkandam Estate, XXVII/248-6,  
Kurusupally Road,  
Cochin-682015.
33. M/s. Brahmayya & Co.,  
Chartered Accountants,  
920, Tilak Road-1,  
Hyderabad-A.P.
34. M/s. Verkki & Pecti,  
Chartered Accountants,  
1100 Pathergatti,  
Jubilee P.O.,  
Hyderabad-A.P.
35. M/s. Ray & Ray,  
Chartered Accountants,  
6. Church Lane,  
Calcutta-700001.
- \*36. M/s. Batliboy & Purohit,  
Chartered Accountants,  
204 Dr. D. N. Road,  
Bombay-400001.
37. M/s. S. S. Kothari & Co.,  
Chartered Accountants,  
9-A, Atma Ram House,  
1 Tolstoy Marg,  
New Delhi-110001.
38. M/s. Dalal & Shah,  
Chartered Accountants,  
49-55 Bombay Samachar Marg,  
Bombay-400023.
39. M/s. Chaturvedi & Co.,  
Chartered Accountants,  
609 Bhandari House,  
Nehru Place,  
New Delhi-110019.
40. M/s. G. Basu & Co.,  
Chartered Accountants,  
3, Chowringhee Approach,  
Calcutta-700072.
41. M/s. P. C. Hansotia & Co.,  
Chartered Accountants,  
Malhotra House, 4th floor,  
Opp. G.P.O., Bombay-400001.
42. M/s. N. C. Rajagopal & Co.,  
Chartered Accountants,  
125, 6th Cross, Gandhinagar,  
Bangalore-560009.
- \*\*43. M/s. S. Venkatram & Co.,  
Chartered Accountants,  
283, Mowbrays Road,  
Madras-600018.
44. M/s. Shankaran & Krishnan,  
Chartered Accountants,  
Rosewood Offices,  
130 Kungambakkam High Road,  
Madras-600034.
45. M/s. Sorab S. Engineer & Co.,  
Chartered Accountants,  
4/1, Asaf Ali Road,  
New Delhi-110002.
- \*46. M/s. Sunderam & Srinivasan,  
Chartered Accountants,  
808 Anna Salai Road,  
Madras-2.
47. M/s. M. K. Dandekar & Co.,  
Chartered Accountants,  
Angappa Nkn. Street,  
Madras-1.



\* Recommendations/Suggestions

\*\* Acknowledged

ANNEXURE 4(K)

**List of Firms of Auditors having Management and Financial Set-up**

- |                                                                                                  |                                                                                             |
|--------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| 1. M/s. A. F. Fergusson & Co.,<br>Allahabad Building,<br>Bombay Samachar Marg,<br>Bombay-400001. | 7. M/s. S. R. Batliboy & Co.,<br>208, Backbay Reclamation,<br>Bombay-400001.                |
| 2. M/s. N. M. Raiji & Co.,<br>Universal Insurance Building,<br>P. Mehta Road,<br>Bombay-400001.  | **8. M/s. C. C. Chokshi & Co.,<br>Mafatlal House,<br>Backbay Reclamation,<br>Bombay-400020. |
| 3. M/s. Picardo & Narkar,<br>Jolly Maker Chambers No. 1,<br>Nariman Point,<br>Bombay-400021.     | **9. M/s. Lovelock & Lewes,<br>4, Lyons Range,<br>Calcutta-700001.                          |
| *4. M/s. Price Waterhouse & Co.,<br>Raheja Chambers,<br>Nariman Point,<br>Bombay-400021.         | 10. M/s. Haribhakti & Co.,<br>Bombay Mutual Chambers,<br>A. Doshi Marg,<br>Bombay-400001.   |
| **5. M/s. S. B. Billimoria & Co.,<br>113, Mahatma Gandhi Road,<br>Bombay-400001.                 | 11. M/s. Fraser & Ross,<br>169 N Usman Road,<br>Madars-17.                                  |
| **6. M/s. Sharp & Tannan,<br>Bank of Baroda Building,<br>Bombay Samachar Marg,<br>Bombay-400023. | 12. M/s. Brahmayya & Co.,<br>156 Thambu City Street,<br>Madras-1.                           |

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\* Recommendations/Suggestions received

\*\* Acknowledged



## ANNEXURE 4(L)

### List of Institutes, Research Organisations and bodies corporate

- \*\*1. The President,  
National Council of Applied Economic Research,  
Parishila Bhavan,  
11, Indraprastha Estate,  
New Delhi-110001.
- \*\*2. The Secretary,  
Sardar Patel Institute of Public Administration,  
New Civil Hospital Annexe,  
Meghaninagar,  
Ahmedabad-380016.
- \*\*3. The Secretary,  
Gokhale Institute of Politics & Economics,  
Deccan Gymkhana,  
Pune-411004.
4. The President,  
Institute of Economics Growth,  
University Enclave,  
New Delhi-110007.
5. The Chairman,  
Indian Institute of Public Administration,  
Indraprastha Estate,  
Ring Road,  
New Delhi-110001.
6. The Secretary,  
Centre for Monitoring Indian Economy,  
110-120 Kalandas Udyog Bhavan,  
Near Century Bazar,  
Worli,  
Bombay-400025.
- \*\*7. The Chairman & Executive Director,  
Indian Investment Centre,  
Jeevan Vihar Building,  
Parliament Street,  
New Delhi-110001.
8. The Secretary,  
Administrative Staff College of India,  
Bella Vista,  
Hyderabad-500475.
- \*9. The President,  
Institute of Costs & Works Accountants of India,  
Rohit Chambers,  
Ghoga Street,  
Bombay-400001.
10. The President,  
Institute of Company Secretaries of India,  
ICSI House,  
22 Institutional Area,  
Lodi Road,  
New Delhi-110003.
- \*\*11. The Director,  
Indian Institute of Management,  
Vastrapur,  
Ahmedabad-15.
12. The Director,  
Indian Institute of Management,  
Diamond Harbour Road Joka,  
Calcutta-700024.
- \*13. The Director,  
Indian Institute of Management,  
33 L F D Road,  
Bangalore-560027.
- \*\*14. The Director,  
Shri Ram Institute of Industrial Research,  
19 University Road,  
Civil Lines,  
New Delhi-110007.
15. The Secretary,  
Jamnalal Bajaj Institute of Management Studies,  
164 Backbay Reclamation,  
Bombay-400020.
16. The Secretary,  
Socio-Economic Research Institute,  
C-19 College Street Market,  
Calcutta-700012.
- \*\*17. The President,  
Institute of Chartered Accounts of India,  
11 P. Marg,  
New Delhi-110002.
18. Shri H. Pais,  
National Labour Institute.

\*Recommendations/Suggestions received.

\*\*Acknowledged.

## ANNEXURE 4(M)

### List of Shareholders Associations

1. The Secretary,  
Shareholders' Association,  
Near Triangular Garden,  
Rajkot.
2. The Secretary,  
United Shareholders' Association,  
10, Birbal Road,  
Jang Pura Extension,  
New Delhi-110014.
3. The Secretary,  
All India Shareholders' Association,  
Jehangir Villa, 1st Floor,  
107, Wodehouse Road,  
Colaba, Bombay-400005.
- \*4. The Secretary,  
Northern India Shareholders' Association,  
C/o Mr. Prem Chand Jain,  
Jain House,  
Hanuman Road,  
New Delhi-110001.
5. The Secretary,  
Delhi Shareholders' Association,  
Asaf Ali Road,  
New Delhi-110002.
6. The Secretary,  
Gujarat Shareholders' Association,  
C/o J. C. Pandya, Executive Director,  
The Stock Exchange,  
Manek Chowk,  
Ahmedabad-380001.
7. The Secretary,  
Saurashtra Shareholders' Association,  
Bhavnagar.
8. The Secretary,  
Surat Shareholders' Association,  
C/o Surat Commercial Corporation,  
Balaji Road, Surat,  
Gujarat State.
9. The Secretary,  
Bengal Shareholders' Association,  
B. R. V. Basu Road,  
Calcutta-700001.
10. The Secretary,  
Indian Banks' Association,  
Stadium House, Block 3, 6th floor,  
81-83 Veer Nariman Road,  
Bombay-400020.
- \*11. The Hon. Secretary,  
The Madras Shareholders' Association,  
No. 61, Moore Street,  
Madras-600001.
- \*12. Sunil Garg Anand,  
C/o Jaipur Shareholders' Association,  
9 A Vivekanand Marg,  
Jaipur-302001.
- \*13. The President,  
North Karnataka Shareholders' Association,  
Bangur Nagar,  
Dandeli-581362.



\* Recommendations/Suggestions received.

## ANNEXURE 4(N)

### List of prominent firms of Solicitors

1. M/s. Dadachanji & Co. J.B.,  
1st floor, Jeevan Vihar,  
3 Sansad Marg,  
New Delhi-110001.
2. M/s. Little & Co.,  
Advocates, Solicitors & Notaries,  
Central Bank Building,  
Bombay-400023.
3. M/s. Khaitan & Co.  
Flat B, 72 Himalaya House,  
23 K. Gandhi Marg,  
New Delhi-110001.
4. M/s. Khaitan & Co.,  
1-B, Old Post Office Street,  
Calcutta-700001.
- \*5. M/s. Mulla & Mulla & Craigie Blunt &  
Caroe,  
Advocates, Solicitors & Notaries,  
Jehangir Wadia Building,  
51, Mahatma Gandhi Road,  
Bombay-400023.
6. M/s. Sampathkumar & Rangarajan,  
Solicitors & Advocates,  
152, Thambu Chetty Street,  
Madras-600001.
7. M/s. Sandersons & Morgans,  
Advocates & Solicitors,  
Royal Insurance Buildings,  
5 Netaji Subhas Road,  
Calcutta-700001.
- \*8. M/s. Orr Dignam & Co.,  
Solicitors & Advocates,  
29 Netaji Subhash Aoad,  
Calcutta-700001.
- \*9. M/s. Kanga & Co.,  
Advocates, Solicitors & Notary,  
Readymoney Mansion,  
43 Veer Nariman Road,  
Bombay-400023.
10. M/s. Crawford Bayley & Co. Solicitors,  
State Bank Building,  
Bank Street,  
Bombay-400023.
11. M/s. Ambubhai & Diwanji,  
Advocates, Solicitors & Notaries,  
Lentin Chambers,  
Dalal Street, Fort,  
Bombay-400023.
12. M/s. King and Patridge,  
Advocates & Solicitors,  
Catholic Centre, IInd floor,  
Armenian Street, P.B. 121  
Madras-600001.
13. M/s. Amarchand & Mangaldas,  
Advocates Solicitors & Notary,  
Lentin Chambers, 3rd floor,  
Dalal Street,  
Fort,  
Bombay-400023.



\* Recommendations/Suggestions received.



## ANNEXURE 5

### Details of the Meetings held by the High Powered Committee on Stock Exchanges

| Sr.<br>No. | Dates of the Meetings            | Held at                                                     |
|------------|----------------------------------|-------------------------------------------------------------|
| 1.         | May 21, 1984 . . . . .           | Unit Trust of India, Bombay                                 |
| 2.         | June 1, 1984 . . . . .           | Industrial Development Bank of India, New Delhi             |
| 3.         | July 18, 1984 . . . . .          | Unit Trust of India, Bombay                                 |
| 4.         | September 3 & 4, 1984 . . . . .  | Industrial Development Bank of India, New Delhi             |
| 5.         | October 29 & 30, 1984 . . . . .  | Industrial Development Bank of India, Calcutta              |
| 6.         | November 21 & 22, 1984 . . . . . | Industrial Development Bank of India, New Delhi             |
| 7.         | January 18 & 19, 1985 . . . . .  | Industrial Credit & Investment Corporation of India, Madras |
| 8.         | February 6 & 7, 1985 . . . . .   | Industrial Development Bank of India, New Delhi             |
| 9.         | March 12 & 13, 1985 . . . . .    | Industrial Credit & Investment Corporation of India, Bombay |
| 10.        | April 1 & 2, 1985 . . . . .      | Canara Bank, Bangalore                                      |
| 11.        | April 27 & 28, 1985 . . . . .    | Industrial Development Bank of India, New Delhi             |
| 12.        | May 16 & 17, 1985 . . . . .      | Industrial Development Bank of India, New Delhi             |
| 13.        | June 12 & 13, 1985 . . . . .     | Industrial Development Bank of India, New Delhi             |
| 14.        | August 18, 1985 . . . . .        | Industrial Development Bank of India, New Delhi             |



# ANNEXURE 6

## Companies at Work

(Paid Up Capital in Rs. Crores)

| Year* | Non-Government Companies |                 |         |                 |
|-------|--------------------------|-----------------|---------|-----------------|
|       | Public                   | Limited         | Private | Limited         |
|       | No.                      | Paid-up Capital | No.     | Paid-up Capital |
| 1961  | 6663                     | 915.2           | 19344   | 356.3           |
| 1962  | 6399                     | 1093.3          | 18422   | 296.1           |
| 1963  | 5404                     | 1170.6          | 19058   | 299.7           |
| 1964  | 6474                     | 1281.0          | 19282   | 361.3           |
| 1965  | 6450                     | 1353.1          | 19588   | 374.9           |
| 1966  | 6329                     | 1407.3          | 20137   | 399.7           |
| 1967  | 6478                     | 1592.4          | 20317   | 417.4           |
| 1968  | 6497                     | 1684.3          | 20606   | 430.2           |
| 1969  | 6454                     | 1712.0          | 21260   | 433.4           |
| 1970  | 6593                     | 1827.5          | 22134   | 472.4           |
| 1971  | 6599                     | 1948.3          | 23409   | 490.9           |
| 1972  | 6703                     | 2035.9          | 25212   | 535.8           |
| 1973  | 6819                     | 2175.6          | 27147   | 574.5           |
| 1974  | 7071                     | 2323.3          | 29964   | 662.6           |
| 1975  | 7275                     | 2484.4          | 32736   | 750.4           |
| 1976  | 7593                     | 2675.4          | 35162   | 821.8           |
| 1977  | 7794                     | 2808.0          | 37371   | 897.2           |
| 1978  | 8028                     | 3113.2          | 39521   | 957.2           |
| 1979  | 8309                     | 3240.2          | 42427   | 1019.8          |
| 1980  | 8864                     | 3444.9          | 46804   | 1091.4          |
| 1981  | 9388                     | 3549.6          | 52475   | 1151.8          |
| 1982  | 10169                    | 3715.9          | 61339   | 1245.1          |
| 1983  | 11371                    | 3839.3          | 70589   | 1347.1          |
| 1984  | 12526                    | 4058.7          | 80768   | 1454.9          |

\*Ended 31st March.

**SOURCE :** Annual Reports on the Working and Administration of the Companies Act, 1956, Department of Company Affairs, Ministry of Law, Justice and Company Affairs, Government of India.

## ANNEXURE 7

### Requirements with respect to the listing of securities on a recognised stock exchange under S.C.R. Rules, 1957

#### Rule 19. Requirements with respect to the listing of securities on a recognised stock exchange :

(1) A public company as defined under the Companies Act, 1956, desirous of getting its securities listed on a recognised stock exchange, shall apply for the purpose to the stock exchange and forward along with its application the following documents and particulars :

- (a) Memorandum and Articles of Association and, in the case of a debenture issue, a copy of the trust deed;
- (b) Copies of all prospectuses or statements in lieu of prospectuses issued by the company at any time;
- (c) Copies of offers for sale and circulars or advertisements offering any securities for subscription or sale during the last five years;
- (d) Copies of balance sheets and audited accounts for the last five years, or in the case of new companies, for such shorter period for which accounts have been made up;
- (e) A Statement showing :
  - (i) dividends and cash bonuses, if any, paid during the last ten years (or such shorter period as the company has been in existence, whether as a private or public company).
  - (ii) dividends or interest in arrears, if any.
- (f) Certified copies of agreements or other documents relating to arrangements with or between :
  - (i) vendors and/or promoters;
  - (ii) underwriters and sub-underwriters;
  - (iii) brokers and sub-brokers.
- (g) Certified copies of agreements with :
  - (i) managing agents and secretaries and treasurers;
  - (ii) selling agents;
  - (iii) managing directors and technical directors;
  - (iv) general manager, sales manager, manager or secretary.
- (h) Certified copy of every letter, report, balance sheet, valuation, contract, court

order or other document, part of which is reproduced or referred to in any prospectus, offer for sale, circular or advertisement offering securities for subscription or sale, during the last five years.

- (i) A statement containing particulars of the dates of and parties to all material contracts, agreements (including agreements for technical advice and collaboration), concessions and similar other documents (except those entered).
- (j) A brief history of the company since its incorporation giving details of its activities including any re-organisation, re-construction or amalgamation, changes in its capital structure (authorised, issued and subscribed) and debenture-borrowings, if any.
- (k) Particulars of shares and debentures issued (i) for consideration other than cash, whether in whole or part (ii) at a premium or discount or (iii) in pursuance of an option.
- (l) A statement containing particulars of any commission, brokerage, discount or other special terms including an option for the issue of any kind of the securities granted to any person.
- (m) Certified copies of :
  - (i) letters of consent of the Controller of Capital Issues;
  - (ii) agreements, if any, with the Industrial Finance Corporation, Industrial Credit and Investment Corporation and similar bodies.
- (n) Particulars of shares forfeited.
- (o) A list of highest ten holders of each class or kind of securities of the company as on the date of application along with particulars as to the number of shares or debentures held by and the address of each such holder.
- (p) Particulars of shares or debentures for which permission to deal is applied for :

Provided that a recognised stock exchange may either generally by its bye-laws or in any particular case call for such further particulars or documents as it deems proper.

(2) Apart from complying with such other terms and conditions as may be laid down by a recognised stock exchange, an applicant company shall satisfy the stock exchange that :

(a) Its articles of association provide for the following among others :

- (i) that the company shall use a common form of transfer;
- (ii) that the fully paid shares will be free from all lien, while in the case of partly paid shares, the company's lien, if any, will be restricted to moneys called or payable at a fixed time in respect to such shares;
- (iii) that any amount paid up in advance of calls on any share may carry interest but shall not entitle the holder of the share to participate in respect thereof, in a dividend subsequently declared ;
- (iv) there will be no forfeiture of unclaimed dividends before the claim becomes barred by law;
- (v) that option or right to call of shares shall not be given to any person except with the sanction of the company in general meeting :

Provided that a recognised stock exchange may provisionally admit to dealings the securities of a company which undertakes to amend its article of association at its next general meeting so as to fulfil the foregoing requirements and agrees to act in the meantime strictly in accordance with the provisions of this clause.

(b) At least sixty per cent of each class or kind of securities issued by the company was offered to the public for subscription through advertisement in newspapers for a period not less than three days and that applications received in pursuance of such offer were allotted fairly and unconditionally :

Provided that a recognised stock exchange may relax this requirement with the previous approval of the Central Government and subject to such instructions as that Government may issue in this behalf from time to time, on satisfactory evidence being produced by the company concerned that the securities sought to be listed are not unduly concentrated in a few hands.

**Explanation.**—Where any part of the securities sought to be listed have been or are agreed to be taken up by the Central Government, a State Government, developmental or investment or investment agency of a State Government, Industrial Development Bank of India, Industrial Finance Corporation

of India, Industrial Credit and Investment Corporation of India Ltd., Life Insurance Corporation of India, General Insurance Corporation of India, and its subsidiaries namely, the National Insurance Company Limited, the New India Assurance Company Limited, the Oriental Fire and General Insurance Company Limited, and the United India Fire and General Insurance Company Limited, or Unit Trust of India, the total subscription to the securities whether by one or more of such bodies, upto eleven per cent, shall be construed as a part of the sixty per cent of the securities to be offered to the public.

3. A company applying for listing shall as a condition precedent, undertake inter alia :

- (a) (i) that letters of allotment will be issued simultaneously and that, in the event of its being impossible to issue letters of regret at the same time, a notice to that effect will be inserted in the press so that it will appear on the morning after the letters of allotment have been posted;
- (ii) that letters of right will be issued simultaneously;
- (ii) that letters of allotment, acceptance of rights will be serially numbered, printed on good quality paper and examined and signed by a responsible officer of the company and that whenever possible, they will contain the distinctive numbers of the securities to which they relate;
- (iv) that letters of allotment, and renounceable letters of right will contain a proviso for splitting and that, when so required by the Exchange, the form of renunciation will be printed on the back of or attached to the letters of allotment and letters of right;
- (v) that letters of allotment and letters of right will state how the next payment of interest or dividend on the securities will be calculated.

(b) (i) to issue, when so required, receipts for all securities deposited with it whether for registration, sub-division, exchange or for other purposes; and not to charge any fees for registration of transfers, for sub-division and consolidation of certificates and for sub-division of letters of allotment, renounceable letters of right, and split, consolidation, renewal and transfer receipts into denominations of the market unit of trading;

(ii) to issue, when so required, consolidation and renewal certificates in denominations of the market unit of trading to split certificates, letters of right, and transfer, renewal, consolidation and split receipts into smaller units, to split call notices, issue duplicates thereof and not require

- any discharge on call receipts and to accept the discharge of members of the stock exchange on split, consolidation and renewal receipts as good and sufficient without insisting on the discharge of the registered holders.
- (c) when documents are lodged for sub-division or consolidation or renewal through the Clearing House of the Exchange;
- (i) to accept the discharge of an official of the stock exchange clearing house on the company's split receipts and consolidation receipts and renewal receipts as good and sufficient discharge without insisting on the discharge of the registered holders; and
- (ii) to verify when the company is unable to issue certificates or split receipts or consolidation receipts or renewal receipts immediately on lodgment whether the discharge of the registered holders, on the documents lodged for sub-division or consolidation or renewal and their signatures on the relative transfers are in order.
- (d) On production of the necessary documents by shareholders or by members of the exchange, to make on transfers an endorsement to that effect that the power of attorney or probate or letters of administration or death certificate or certificate of Controller of Estate Duty or similar other document has been duly exhibited to and registered by the Company :
- (e) to issue certificates in respect of shares or debentures lodged for transfer within a period of one month of the date of lodgment of transfer and to issue balance certificates within the same period where the transfer is accompanied by a larger certificate;
- (f) to advise the stock exchange of the date of the Board meeting at which the declaration or recommendation of a dividend or the issue of right or bonus shares will be considered;
- (g) to recommend or declare all dividends and/or cash bonuses at least five days before the commencement of the closure of its transfer books or the record date fixed for the purpose and to advise the stock exchange;
- (h) to notify the stock exchange of any change;
- (i) in the company's directorate by death, resignation, removal or otherwise;
- (ii) of managing director, managing agent or secretaries and treasurers;
- (iii) of auditors appointed to audit the books and accounts of company.
- (j) to forward to the stock exchange copies of statutory and annual reports and audited accounts as soon as issued, including Directors' report;
- (k) to forward to the stock exchange as soon as they are issued, copies of all other notices and circulars sent to the shareholders including proceedings of ordinary and extraordinary general meetings of the company and to file with the stock exchange certified copies of resolutions of the company as soon as such resolutions become effective;
- (l) to notify the stock exchange prior to intimating the shareholders of any new issue of securities whether by way of right, privilege bonus or otherwise and the manner in which it is proposed to offer or allot the same;
- (m) to notify the stock exchange in the event of re-issue of any forfeited securities or the issue of securities held in reserve for future issue;
- (n) to notify the stock exchange of any other alteration of capital including calls;
- (o) to close the transfer books only for the purpose of declaration of dividend or issue of right and bonus shares or for such other purposes as the stock exchange may agree; to give notice to the stock exchange as many days in advance as the exchange may from time to time reasonably prescribe, stating the dates of closure of its Transfer Books (or, when the Transfer Books are not to be closed, the date fixed for taking a record of its shareholders or debenture-holders) and specifying the purpose or purposes for which the Transfer Books are to be closed (or the record is to be taken); and in the case of a right or bonus issue to so close the transfer books or fix a record date only after the sanctions of the competent authority subject to which the issue is proposed to be made have been duly obtained unless the Exchange agrees otherwise;
- (p) to forward to the stock exchange an annual return immediately after each annual general meeting of at least ten principal holders of each class of security of the company along with particulars as to the number of shares or debentures held by, and address of, each such holder;
- (q) to grant to shareholders the right of renunciation in all cases of issue of rights, privileges and benefits and to allow them reasonable time not being less than four weeks within which to record, exercise, or renounce such rights, privileges and benefits; and to issue where necessary, coupons or fractional certificates or provide for the payment of the equivalent of the value of

the fractional right in cash unless the company in general meeting or the stock exchange agrees otherwise;

(r) to promptly notify the stock exchange :

- (i) of any action which will result in the redemption, cancellation or retirement in whole or in part of any securities listed on the exchange;
- (ii) of the intention to make a drawing of such securities, intimating at the same time the date of the drawing and the period of the closing of the Transfer Books (or the date of the striking of the balance) for the drawing;
- (iii) of the amount of securities outstanding after any drawing has been made.
- (s) to intimate the stock exchange any other information necessary to enable the shareholders to appraise the position of the company and to avoid the establishment of a false market in the shares of the company;
- (t) that in the event of the application for listing being granted, such listing shall be subject to the rules and bye-laws of the exchange in force from time to time and that the company will comply within a reasonable time, with such further listing requirements as may be promulgated by the exchange as a general condition for new listings.

(4) A fresh application for listing will be necessary in respect of all new issues desired to be dealt in, provided that, where such new securities are identical in all respects with those already listed, admission to dealings will be granted on the company intimating to the stock exchange particulars of such new issues.

Explanation :--Shares are identical in all respects only if ;

- (a) they are of the same nominal value and the same amount per share has been called up;

(b) they are entitled to dividend at the same rate and for the same period, so that at the next ensuing distribution, the dividend payable on each share will amount to exactly the same sum, net and gross; and

(c) they carry the same rights in all other respects.

(5) A recognised stock exchange may suspend or withdraw admission to dealings in the securities of a company or body corporate either for a breach of or non-compliance with, any of the conditions of admission to dealings or for any other reason, to be recorded in writing, which in the opinion of the stock exchange, justifies such action;

Provided, however, that no such action shall be taken by a stock exchange without affording to the company or body corporate concerned a reasonable opportunity by a notice in writing, stating the reasons, to show cause against the proposed action;

Provided further that where a recognised stock exchange has withdrawn admission to dealings in any security, or where suspension of admission to dealings has continued for a period exceeding three months, the company or body corporate concerned may appeal to the Central Government and the Central Government may, after giving the stock exchange an opportunity of being heard, vary or set aside the decision of the stock exchange and thereupon the orders of the Central Government shall be carried out by the stock exchange.

(6) A recognised stock exchange may either at its own discretion or shall in accordance with the orders of the Central Government under sub-rule (5) restore or re-admit to dealings any securities suspended or withdrawn from the list.

(7) The Central Government may, at its own discretion or on the recommendation of a recognised stock exchange, waive or relax the strict enforcement of any or all of the requirements with respect to listing prescribed by these rules.

## ANNEXURE 8

### Administrative guidelines governing the listing of securities on recognised Stock Exchange in relaxation of Rule 19(2)(b) of the Securities Contracts (Regulation) Rules, 1957.

#### 2. Established non-FERA companies :

In respect of established non-FERA companies, that is, companies incorporated in India at least 10 years prior to the date of the listing application or companies with a profit earning record for a continuous period of at least five years prior to the date of the listing application and in which foreign equity does not exceed 40 per cent, the public offer should ordinarily be at least 49 per cent of the issued capital of the company. Where there is already a considerable public shareholding in the company, a further reduction in the public offer can also be considered provided the following conditions are satisfied:

- (i) The shares are held by persons not connected with the management, their associates and associate companies.
- (ii) The shares have remained widely distributed, without undue concentration of large holdings in the hands of the shareholders on record (or their predecessors in title) for a period of at least three years prior to the date of the listing application.
- (iii) The number of such shareholders is at least 20 for every Rs. 1 lakh of capital held by them.

Companies which have been earning profits for the last 5 years and have substantial accumulated reserves can make public offer in two stages subject to the following conditions :

- (i) the total public offer is not less than 40 per cent of the issued capital of the company;
- (ii) the initial public offer shall not in any case be less than  $33\frac{1}{3}$  per cent of the issued capital of the company; and
- (iii) the second stage of the balance public offer shall be made by the company within 3 years of the date of enlistment with the regional stock exchange;
- (iv) Simultaneous issue and listing of equity shares and debentures will also be allowed subject to compliance with the listing requirements and guidelines for issue of debentures/shares.

#### Amendments to the Listing Guidelines.

Guidelines for listing of securities were amended by the Government on March 18, 1985 in order to

encourage listing of more existing non-FERA unlisted companies incorporated in India at least 10 years prior to the date of listing applications or companies with a profit earning record for at least 4 years out of 5 years prior to the dates of the listing applications. According to the said guidelines, the public offer, in such cases, should be at least 40 per cent of the issued capital of the company as against 49 per cent stipulated in the earlier guidelines. Such public offer, at the option of the company, should be made in two stages, namely, the first 20 per cent at the time of listing and the balance within 3 years of the date of enlistment with the concerned regional Stock Exchange.

#### 3. Other established or new non-FERA companies: In respect of :

- (i) other established non-FERA companies, that is companies incorporated in India within 10 years of the date of the listing application and in which foreign equity does not exceed 40 per cent ;

and

- (ii) new companies, without any foreign equity participation, the provisions of Rule 19(2) (b) of the S.C. (R) Rules shall apply. In other words, the public offer should be at least 60 per cent of the issued capital of the company in such cases. Subscriptions by the Central Government, State Governments and their agencies and public financial institutions shall be counted as a part of the public offer upto a maximum extent of 11 per cent of the issued capital of the company.

#### 4. Existing FERA Companies :

In respect of existing companies having more than 40 per cent foreign equity and undergoing the process of Indianisation under the Foreign Exchange (Regulation) Act, 1973, the public offer should be the balance of the issued capital after deduction of the permissible level of foreign equity and the holdings of existing Indian shareholders subject to the public offer being not less than 20 per cent of the issued capital of the company in any event. To illustrate, if the permissible level of foreign equity under the Foreign Exchange (Regulation) Act is 40 per cent and the existing Indian shareholders hold 20 per cent, the public offer should be at least 40 per cent of the issued capital of company.

### 5. *New companies with foreign equity participation :*

In respect of new companies with approved foreign equity participation, the public offer should be the balance of the issued capital after deduction of the capital subscribed by the foreign participants and the Indian promoters, subject to the following conditions being fulfilled :

- (i) The public offer should not in any event be less than 33-1/3 per cent of the issued capital of the company.
- (ii) The share of the Indian promoters should not be more than 40 per cent of the issued capital of the company.

The following examples would illustrate the above requirements :

#### (i) *Foreign equity participation of 33-1/3 per cent :*

The public offer should not be less than 33-1/3 per cent and the share of the Indian promoters should be not more than 33-1/3 per cent of the issued capital of the company.

#### (ii) *Foreign equity participation of 15 per cent, 20 per cent, 25 per cent or 30 per cent :*

If the foreign equity participation is, say 15 per cent, 20 per cent, 25 per cent or 30 per cent, the respective public offer should be not less than 45 per cent, 40 per cent, 35 per cent or 33-1/3 per cent.

Notwithstanding what is stated above, the minimum public offer can be permitted to be reduced to 20 per cent of the issued capital of the company, if the foreign participants are permitted to subscribe for more than 33-1/3 per cent of the issued capital and the Indian promoters are required to subscribe to an equal extent. For example, if the foreign participants and the Indian promoters subscribe for 40 per cent each of the issued capital of the company, then the public offer can be 20 per cent of the issued capital. If, however, the foreign participants and the Indian promoters subscribe for 35 per cent each of the issued capital of the company, then the public offer should be 30 per cent of the issued capital.

### 6. *New companies with non-resident Indian equity participation :*

Where non-residents of Indian nationality or origin or overseas companies, partnership firms, trusts, societies and other corporate bodies owned predominantly by non-resident individuals of Indian nationality or origin (the criterion for determining such predominant ownership is that at least 60 per cent of the ownership of these entities should be with non-residents of Indian nationality or origin) are themselves the promoters of the Company, the public offer should be the balance of the issued capital of the company after deduction of the capital subscribed by them subject to the public offer being not less

than 26 per cent of the issued capital of the company.

To illustrate :

- (i) If the non-resident Indian equity is 74 per cent, the public offer should be 26 per cent of the issued capital of the company.
- (ii) If the non-resident Indian equity is 51 per cent, the public offer should be 49 per cent of the issued capital of the company.
- (iii) If the non-resident Indian equity is 40 per cent, the public offer should be 60 per cent of the issued capital of the company. [There is no relaxation of Rule 19(2)(b) of the S.C. (R) Rules in this case].
- (iv) If the non-resident Indian equity is 30 per cent, the public offer need not exceed 60 per cent, and the balance of 10 per cent can be allotted to friends, relatives and associates of the promoters. [Here again, there is no relaxation of the Rule 19(2)(b) of the S.C. (K) Rules].

### 7. *Joint Sector Companies :*

In a joint sector company, the principal promoter will be a State Government and/or its agencies and the co-promoter will be a private party. The shareholding of the State Government and/or its agencies will not ordinarily be less than that of the co-promoter. In such cases, the public offer should be the balance of the issued capital of the company after deduction of the capital subscribed by the promoters and the co-promoters subject to the condition that the public offer should not normally be less than 33-1/3 per cent of the issued capital of the company. To illustrate, if the State Govt. and/or its agencies taken up 26 per cent and the co-promoters takes up 25 per cent of the issued capital of the company, the balance of 49 per cent should be offered to the public.

8. In all the cases covered by paragraphs 2, 3, 5, 6 & 7, out of the percentage earmarked for public offer, a company may permit reservation for non-residents of Indian nationality or origin or for overseas companies, partnership firms, trusts, societies and other corporate bodies owned predominantly by non-resident individuals of Indian nationality or origin, making investment, with full benefits of repatriation of capital invested and income accruing thereon, provided payment for such investment is made either by fresh remittances from abroad or out of the funds held in the investor's non-resident [External account/Foreign currency (Non-resident)] account with a bank in India. The extent of reservation should be subject to the following conditions :

- (i) The minimum public offer to the resident Indian public after reserving for non-residents of Indian nationality or origin should not be less than 20 per cent of the issued capital of the company.
- (ii) The maximum reservation to non-residents of Indian nationality or origin shall not exceed 40 per cent of the new capital issued of the company.



9. In cases where non-residents of Indian nationality or origin or overseas companies partnership firms, trusts, societies and other corporate bodies owned predominantly by non-resident individuals of Indian nationality or origin do not subscribe to the full extent of the reservation earmarked for them, the shortfall shall be added to the offer for the resident Indian public. If, on the other hand, the subscription exceeds the reservation, then allotment to non-residents shall be done by giving weightage to the applicants in the lower categories as per the various guidelines issued by this Division from time to time in respect of public offers of capital.

10. In all the cases covered by paragraphs 3, 5, 6 & 7, if the minimum percentage of the total cost of the project required to be subscribed by the promoters due to either the stipulation by the Financial Institutions or the provisions of the Monopolies and Restrictive Trade Practices Act, 1969 exceeds the permissible level of equity holdings by promoters stipulated in these paragraphs, promoters in such cases will be permitted to subscribe for a higher percentage of equity shares subject to an upper ceiling of 70 per cent during the initial stages to match the required level of the promoters' contribution. This is, however, subject to the condition that the equity holdings of promoters above the permissible level will have to be divested by an offer for sale to the general public at the prevailing market price not exceeding the average of the three preceding years. The disinvestment should take place within a period of three years from the date of commercial production unless the company obtains any extension of the time from the Government.

11. If the permissible level of subscription by the promoters in the cases covered by paragraphs 3, 5, 6 & 7 itself is 70 per cent or above, then the promoters will not be required to make any disinvestment of their holdings.

#### 12. Offer for sale of existing issued capital :

Companies can have their shares listed on a recognised Stock Exchange by arranging for an offer for sale of their existing issued capital. Such an offer for sale can be combined with a fresh issue of capital also. The extent of public offer in these cases should be in conformity with the provisions contained in the foregoing paragraphs.

The words 'to the public for subscription' appearing in Rule 19(2)(b) of the Securities Contracts (Regulation) Rules apply only to the initial or further issues of capital and not to 'offer for sale'. If a company arranges for an 'offer for sale' of its shares, either to the full extent of 60 per cent or partially to cover the gap upto 60 per cent, then the prior approval of the Central Government is required to be obtained in order to entitle the company to have its securities listed on a recognised stock exchange.

In addition, the following conditions should also be fulfilled :

- (a) The net worth (i.e. existing paid up equity capital plus free reserves, excluding reserves created out of revaluation of fixed assets) of the company should not be less than its existing paid up capital and the company should not have incurred a loss in each of the three years preceding the listing application.
- (b) The offer should result in a wide distribution of shares among the general public without undue concentration of large holdings, and the number of public shareholders should be at least 20 for every Rs. 1 lakh of the public offer.
- (c) If the share is offered at a price above its par value, the price should have been approved by the Central Government.
- (d) The offer should set out all material particulars relating to the company and the shares offered to the public. It must be in a form approved by the Stock Exchange concerned and must comply with all the conditions pertaining to public advertisement, opening and closing of subscription lists, payment of application money, disposal of applications, basis of allotment, etc. as are applicable to a company offering fresh shares for public subscription in accordance with the listing regulations and instructions issued by the Government from time to time. The offer should invariably contain a statement in bold print on the following lines :

"The offerers collectively and individually accept full responsibility for the accuracy of the information given in the offer for sale and confirm that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the offer for sale misleading, and they further confirm that they have made all reasonable enquiries to ascertain such facts. The offerers further declare that the Stock Exchange to which an application for official quotation is proposed to be made does not take any responsibility for the financial soundness of this offer or for the price at which the shares are offered or for the correctness of the statements made or opinions expressed in the offer for sale."

#### 13. Minimum public offer and minimum number of shareholders :

Notwithstanding anything contained in the preceding paragraphs, the shares of a company will not be listed on a Stock Exchange irrespective of whether or not the provisions of Rule 19(2)(b) of the

3.C.(R) Rules, 1957 are to be relaxed unless the following conditions are satisfied.

- (a) The issued capital of the company should not be less than Rs. 20 lakhs.
- (b) The public offer should not be less than Rs. 12 lakhs in face value if it is 60 per cent or more of the issued capital of the company, the public offer should not be less than Rs. 20 lakhs in face value, if it is less than 60 per cent of the issued capital of the company. For this purpose, the term "public offer" would include the holdings of the Central Government, State Government and their agencies, public financial institutions and companies listed on recognised Stock Exchanges to the extent indicated in the relevant paragraphs above.
- (c) The public offer should result in a wide distribution of shares among the general public without undue concentration of large holdings with the company having at least
  - (i) 10 public shareholders for every Rs. 1 lakh of fresh issue of capital, and (ii) 20 public shareholders for every Rs. 1 lakh of offer for sale of existing capital. To illustrate, if a public offer consists of Rs. 25 lakhs of fresh issue of capital, the minimum number of public shareholders should be 250. If the public offer is Rs. 25 lakhs of offer for sale of existing capital, the minimum number of public shareholders should be 500. If the public offer is a combination of Rs. 25 lakhs of fresh issue of capital and Rs. 25 lakhs of offer for sale, the minimum number of public shareholders would be 750. For this purpose, the term "public offer" will cover only the offer made to the public and will not include reservations for firm allotments for any category. These conditions will have to be satisfied only if the issue of offer for sale is either not underwritten or only partially underwritten by public financial institutions, nationalised banks (including State Bank of India and its subsidiaries) and State Government agencies. If the issue of offer for sale is entirely underwritten by these institutions, the conditions set out in this sub-para will not apply.

- (d) Notwithstanding what is stated above, in respect of investment companies, the paid-up capital should not be less than Rs. 1 crore, with at least 2,000 shareholders other than promoters, the number of shareholders increasing proportionately with the increase in the paid up capital. Besides, the shares of these companies shall be delisted if the number of shareholders other than promoters falls below 1,000 for a company with a paid-up capital of Rs. 1 crore and correspondingly higher number of shareholders for companies with proportionately higher capital. Companies which have in the Main Objects clauses, underwriting or dealing in shares or debentures or other securities as one of the object clauses, shall be considered as investment companies. Similarly, leasing companies with a paid-up capital of not less than Rs. 1 crore only will be listed on Stock Exchange. All companies which have the business of leasing and/or the provision of finance for lease operations as one of the objects in their Main Object Clauses shall be considered as leasing companies for this purpose.

As it is likely that some of the listed companies with a paid-up capital of less than Rs. 1 crore, which did not have leasing and/or the provision of finance for lease operations in their Main Objects at the time of enlistment of their shares, may adopt such business in their Main Objects after obtaining the approval of the shareholders by way of Special Resolution and filing the Special Resolution with the Registrar of Companies, it has been decided by the Government that such companies shall be delisted unless they raised the paid-up capital to at least Rs. 1 crore within a period of six months from the date they start leasing operations.

#### 14. Public Sector Companies :

Enlistment of debentures of Public Sector Companies without enlistment of their equity shares may be allowed provided (a) the fair value of the shares of such companies is equal or more than the par value and (b) such companies have declared dividend in the year immediately preceding the year of proposed issue.

## ANNEXURE 9

### Listing of supporting documents to be filed with the listing application

(By companies whose securities are not listed on the exchange)

1. Three certified copies of—
    - (a) Memorandum and articles of association ;
    - (b) Debenture trust deed.
  2. Copies of all—
    - (a) Prospectuses ;
    - (b) Statement in lieu of prospectus ;
    - (c) Offers for sale made during the last five years ;
    - (d) Circulars offering securities for subscription or sale during the last five years ;
    - (e) Advertisements offering securities for subscription or sale during the last five years.
  3. Copy of every letter, report, balance sheet valuation, contract, court order or other document any part of which is reproduced or referred to in any prospectus, offer for sale, circular or advertisement offering securities for subscription or sale during the last five years.
  4. Certified copies of letter of consent of the Controller of Capital Issues.
  5. Certified copies of—
    - (a) Underwriting agreements ;
    - (b) Sub-underwriting agreements ;
    - (c) Sub-underwriting letters together with a statement containing the names, addresses and description of the sub-underwriters and the amounts sub-underwritten by each of them ;
    - (d) Brokerage agreements ;
    - (e) Letters of appointment of official brokers and sub-brokers together with a statement of the terms and conditions of appointment.
  6. Certified copies of—
    - (a) Vendors' agreements ;
    - (b) Promoters' agreements.
  7. Certified copies of service agreements with—
    - (a) The secretaries and treasurers or managing director ;
    - (b) Technical directors ;
    - (c) General Manager, manager or secretary.
  8. Certified copies of agreements with—
    - (a) Selling agents ;
    - (b) Sales managers.
  9. Statement containing particulars of the dates of and parties to all material contracts, agreements, including agreements for technical advice and collaboration, concessions and similar other documents, except those entered into in the ordinary course of the business carried on or intended to be carried on by the company, together with a short description of the terms, subject matter and general nature of the documents.
  10. Three copies of Directors' Report and balance sheets for the last five years.
  11. Copies of agreements with the Industrial Finance Corporation, Industrial Credit and Investment Corporation and such other bodies.
  12. Short history of the company including particulars of any reorganisation, reconstruction, amalgamation, etc., together with details of the company's activities.
  13. Specimen, cancelled and marked as such, copies of the following :
    - (a) Share certificates ;
    - (b) Debenture certificates ;
    - (c) Letters of allotment ;
    - (d) Letters of acceptance ;
    - (e) Letters of renunciation ;
    - (f) Transfer receipts ;
    - (g) Split receipts ;
    - (h) Consolidation receipts.
- Note :—The above list indicates documents ordinarily required in support of a listing application. In special circumstances additional documents may be required.

## ANNEXURE 10

### Appendix B to Regulation (Regulation 2-1 (v) and 2-5) Listing Agreement Form

Non-Judicial Stamp  
for Rs. 2.30 P.

Agreement made this \_\_\_\_\_ day of \_\_\_\_\_  
19\_\_\_\_\_ by \_\_\_\_\_ a Company  
duly formed and registered under the Companies Act  
and having its Registered office in \_\_\_\_\_

(hereinafter called "the Company") with Pune Stock  
Exchange Ltd., Pune (hereinafter called "the Ex-  
change").

#### Witnesseth

Whereas the Company has filed with the Exchange  
and application for listing its securities more parti-  
cularly described in Schedule I annexed hereto and  
made a part hereof.

And whereas it is a requirement of the Exchange  
that there must be filed with the application an agree-  
ment in terms hereinafter appearing to qualify for  
the admission and continuance of the said securities  
upon the list of Exchange.

Now, therefore in consideration of the Exchange  
listing the said securities the Company hereby cove-  
nants and agrees with the Exchange as follows :

#### 1. The Company agrees—

- (a) that Letters of Allotment will be issued simul-  
taneously and that in the event of its being  
impossible to issue Letters of Regret at the  
same time a notice to that effect will be  
inserted in the press so that it will appear  
on the morning after the Letters of Allot-  
ment have been posted ;
- (b) that Letters of Right will be issued simulta-  
neously ;
- (c) to issue new certificates in replacement of  
Rights will be serially numbered, printed on  
good quality paper and examined and signed  
by a responsible Officer of the Company and  
that whenever possible they will contain the  
distinctive numbers of the securities to which  
they relate ;
- (d) that Letters of Allotment and renounceable  
Letters of Right will contain a provision for  
splitting and that when so required by the

Exchange the form of renunciation will be  
printed on the back of or attached to the  
Letters of Allotment and Letters of Right ;

- (e) that Letters of Allotment and Letters of Right  
will state how the next payment of interest  
or dividend on the securities will be calcu-  
lated.

2. The Company will issue, when so required, re-  
ceipts for all securities deposits deposited with it whe-  
ther for registration, sub-division, consolidation, rene-  
wal, exchange or for other purposes.

#### 3. The Company agrees—

- (a) to have on hand at all times a sufficient  
supply of certificates to meet the demands for  
transfer, sub-division, consolidation and rene-  
wal ;
- (b) to issue Certificates or Pucca Receipts within  
one month of the date of the expiration of  
any Right to Renunciation ;
- (c) to issue Certificates within one month of the  
date of lodgment for transfer, sub-division,  
consolidation, renewal, exchange or endorse-  
ment of calls/allotment moneys or to issue  
within fifteen days of such lodgment for  
transfer Pucca Transfer Receipts in denomi-  
nation corresponding to the market units of  
the trading autographically signed by a res-  
ponsible official of the Company and bearing  
an endorsement that the transfer has been  
duly approved by the Directors or that no  
such approval is necessary ;
- (d) to issue without charge Balance Certificates  
within one month, if so required ;
- (e) to issue new certificates in replacement of  
those which are lost within six weeks of  
notification of loss and receipt of proper  
indemnity.

#### 4. The Company agrees—

- (a) to split Certificates, Letter of Allotment,  
Letters of Right, and Split, Consolidation,  
Renewal and Pucca Transfer Receipts of  
large denominations into smaller units ;
- (b) to consolidate certificates of small denomina-  
tions into denominations corresponding to  
the market units of trading ;

- (c) to issue within one week, Split, Consolidations and renewal Receipts duly signed by an official of the Company and in denominations corresponding to the market units of trading, particularly when so required by the Exchange ;
- (d) to exchange 'Right' or 'Entitled' shares into Coupons or Fractional Certificates when so required by the Exchange ;
- (e) to issue call notices and splits and duplicates thereof in a standard form acceptable to the Exchange, to forward supply of the same promptly to the Exchange for meeting requests for blank, split and duplicate call notices, to make arrangements for accepting call moneys at all centres where there are recognised Stock Exchanges in India and not to require any discharge on call receipts ;
- (f) to accept the discharge of the members of the Exchange on Split, Consolidation and Renewal Receipts as good and sufficient without insisting on the discharge of the registered holders.

5. When documents are lodged for sub-division, consolidation or renewal through the Clearing House of the Exchange, the Company agrees—

- (a) that it will accept the discharge of an official of the Stock Exchange Clearing House on the Company's Split, Consolidation and Renewal Receipts as good and sufficient without insisting on the discharge of the registered holders ;
- (b) that when the Company is unable to issue Certificates or Split, Consolidation, or Renewal Receipts immediately on the lodgment, it will verify whether the discharge of the registered holders on the documents lodged for sub-division, consolidations or renewal and their signatures on the relative transfers are in order.

6. The Company will, if so required by the Exchange, certify transfers against Letters of Allotment, Certificates and Balance Receipts and in that event the Company will promptly make on transfers on endorsement to the following effect :

"Name of Company \_\_\_\_\_  
 Certificate/Allotment Letter No. \_\_\_\_\_  
 for the within-mentioned \_\_\_\_\_  
 shares is deposited in the Company's Office  
 against this transfer No. \_\_\_\_\_  
 Signature(s) of Official(s) \_\_\_\_\_  
 Date \_\_\_\_\_"

7. On production of the necessary documents by shareholders or by members of the Exchange, the Company will make on transfers an endorsement to the effect that the Power of Attorney or Probate or Letters

of Administration or Death Certificate or Certificate of the Controller of Estate Duty or similar other documents has been duly exhibited to and registered by the Company.

8. The Company agrees that it will not make any charge—

- (a) for registration of transfers of its Shares and Debentures ;
- (b) for sub-division and consolidation of Share and Debenture certificates and for sub-division of Letters of Allotment and Split, Consolidation, Renewal and Pucca Transfer Receipts into denominations corresponding to the market units of trading ;
- (c) for sub-division of renounceable Letters of Right ;
- (d) for issue of new Certificates in replacement of those which are old, decrepit or worn out or where the cases on the reverse for recording transfers have been fully utilised ;
- (e) for registration of any Power of Attorney, Probate, Letters of Administration or similar other documents.

9. The company agrees that it will not charge any fees exceeding those which may be agreed upon with the Exchange—

- (a) for issue of new certificates in replacement of those that are torn, defaced, lost or destroyed ;
- (b) for sub-division and consolidation of Share and Debenture Certificates and for sub-division of Letters of Allotment and Split, Consolidation, Renewal and Pucca Transfer Receipts into denominations other than those fixed for the market units of trading.

10. The Company will promptly verify the signatures of shareholders on Allotment Letters, Split, Consolidation, Renewal, transfer and any other Temporary Receipts and Transfer-Deeds when so required by the shareholders or a member of the Exchange or by the Stock Exchange Clearing House.

11. The Company agrees that it will entertain applications for registering transfers of its securities when—

- (a) the instrument of transfer is in any usual or common form approved by the Exchange;
- (b) the transfer deeds are properly executed and accompanied either by Certificates or by Letters of Allotment, Pucca Transfer Receipts, Split, Consolidation or Renewal Receipts duly discharged either by the registered holders or in the case of Split, Consolidation and Renewal Receipts, by members or the Exchange or an official of the Stock Exchange Clearing House as provided herein.

12. On lodgment of the proper documents, the Company agrees that it will register transfers of its securities in the name of the transferee except—

- (a) when the transferee is, in exceptional circumstances, not approved by the Directors in accordance with the provisions contained in the Articles of Association of the Company, in which event the President of the Exchange will be taken into confidence, when so required, as to the reasons for such rejection ;
- (b) when any statutory prohibition or any attachment or prohibitory order of a competent authority restrains the Company from transferring the securities out of the name of the transferor ;
- (c) when a transferor objects to the transfer provided he serves on the Company within a reasonable time a prohibitory order of a Court of Competent jurisdiction.

13. The Company will promptly notify the Exchange of any attachment or prohibitory orders restraining the Company from transferring securities out of the names of the registered holders and furnish to the Exchange particulars of the number of securities so affected, the distinctive numbers of such securities and the names of the registered holders thereof.

14. If, in view of the volume of business in the listed securities of the Company, the Exchange so requires, the Company will arrange to maintain—

- (a) a transfer register in the City of Pune on which all securities of the Company that are listed on the Exchange would be directly transferable ; or
- (b) a registry office or some other suitable office satisfactory to the Exchange within the City of Pune which will receive and re-deliver all securities there tendered for the purpose of transfer, sub-division, consolidation or renewal.

15. The Company agrees that it will not close its Transfer Books on such days (or, when the Transfer Books are not to be closed, fix such date for the taking of a record of its shareholders or debenture holders) as may be inconvenient to the Exchange for the purpose of settlement of transactions, of which due notice in advance shall have been given by the Exchange to the Company.

16. The Company agrees to close its Transfer Books for purposes of declaration of dividend or issue of right or bonus shares or for such other purpose as the Exchange may agree to or require and further agrees to close its Transfer Books at least once a year at the time of the Annual General Meeting if they have not been otherwise closed at any time during the year and to give to the Exchange notice in advance of at least twenty one days, or of as many days as the Exchange may from time to time reasonably prescribe, stating the

dates of closure of its Transfer Books (or, when the Transfer Books are not to be closed, the date fixed for taking a record of its shareholders or debenture-holders) and specifying the purpose or purposes for which the Transfer Books are to be closed (or the record is to be taken) and to send copies of such notices to other recognised Stock Exchanges in India.

17. The Company will accept for registration transfers that are lodged with the Company upto the date of closure of the Transfer Books (or, when the Transfer Books are not closed, upto the record date) and save as provided in Clause 12 will register such transfer forthwith; and unless the Exchange agrees otherwise, the Company will defer, until the Transfer Books have reopened registration of any transfers which may be received after the closure of the Transfer Books.

18. The Company will publish in a form approved by the Exchange such periodical interim statements of its working and earnings as it shall from time to time agree upon with the Exchange.

19. The Company will notify the Exchange without delay of the date of the meeting of its Board of Directors at which the recommendations of declaration of a dividend or a right or bonus issue or the passing over of dividend is due to be considered and will recommend or declare all dividends and/or cash bonuses at least five days before commencement of the closure of its Transfer Books or the record date fixed for the purpose.

20. The Company will, immediately after the meeting of its Board of Directors has been held to consider or decide the same, intimate to the Exchange by letter (or, if the meeting be held outside the City of Pune by telegram)—

- (a) all dividends and/or cash bonuses recommended or declared or the decision to pass an dividend or interest payment ;
- (b) the total turnover, gross profit/loss, provision for depreciation, tax provisions and net profits for the year (with comparison with the previous year) and the amounts appropriated from reserves, capital profits, accumulated profits of past years or other special source to provide wholly or partly for the dividend, even if this calls for qualification that such information is provisional or subject to audit.

21. The Company will fix and notify the Exchange at least twenty-one days in advance of the date on and from which the dividend will be payable and issue simultaneously the dividend warrants which shall be encashable at par at all the branches of its bankers so as to reach the shareholders on or before the date fixed for payment of dividend.

22. The Company will, immediately after the meeting of its Board of Directors has been held to consider or decide the same, intimate to the Exchange by

letter (or, if the meeting be held outside the City of Pune, by telegram):—

- (a) short particulars of any increase of capital whether by issue of bonus shares through capitalisation, or by way of right shares to be offered to the shareholders or debenture-holders, or in any other way;
- (b) short particulars of the re-issue of forfeited shares or securities, or the issue of shares or securities held in reserve for future issue, or the creation in any form or manner of new shares or securities or any other rights, privileges or benefits to subscribe to;
- (c) short particulars of any other alterations of capital, including calls;
- (d) any other information necessary to enable the holders of the listed securities of the Company to appraise its position and to avoid the establishment of a false market in such listed securities.

23. The Company agrees :—

- (a) to issue or offer in the first instance all shares (including forfeited shares, unless the Exchange otherwise agrees), securities, rights, privileges and benefits to subscribe to pro rata to the equity shareholders of the Company unless the shareholders in general meeting decide otherwise;
- (b) to close the Transfer Books as from such date or to fix such record date for the purpose in consultation with the Exchange as may be suitable for the settlement of transactions and to so close the Transfer Books or fix the record date only after the sanctions subject to which the issue or offer is proposed to be made have been duly obtained unless the Exchange agrees otherwise;
- (c) to make such issues or offers in a form to be approved by the Exchange and unless the Exchange otherwise agrees to grant in all cases the right of renunciation to the shareholders and to forward a supply of the renunciation forms promptly to the Exchange;
- (d) to issue, where necessary, Coupons or Fractional Certificates unless the Company in general meeting or the Exchange agrees otherwise, and when Coupons or Fractional Certificates are not issued, to provide for the payment of the equivalent of the value, if any, of the fractional rights in cash;
- (e) to give to the shareholders reasonable time, not being less than four weeks, within which to record their interest and exercise their rights;
- (f) to issue Letters of Allotment or Letters of Right within six weeks of the record date or date of reopening of the Transfer Books after their closure for the purpose of making

a bonus or rights issue and to issue Allotment Letters or Certificates within six weeks of the last date fixed by the Company for submission of Letters of Renunciations or Applications for new securities.

24. The Company agrees to make an application to the Exchange for the listing of any new issue of shares or securities and of the provisional documents relating thereto.

25. In the event of the Company granting any options to purchase any shares of the Company, the Company, will promptly notify the Exchange :—

- (a) of the number of shares covered by such options, of the terms thereof and of the time within which they may be exercised;
- (b) of any subsequent changes or cancellation or exercise of such options.

26. Unless the terms of issue otherwise provide, the Company will not select any of its listed securities for redemption otherwise than pro rata or by lot and will promptly furnish to the Exchange any information requested in reference to such redemption.

27. The Company will promptly notify the Exchange :—

- (a) of any action which will result in the redemption, cancellation or retirement in whole or in part of any securities listed in the Exchange;
- (b) of the intention to make a drawing of such securities, intimating at the same time the date of the drawing and the period of the closing of the Transfer Books (or the date of the striking of the balance) for the drawing;
- (c) of the amount of security outstanding after any drawing has been made.

28. The Company will not make any change in the form or nature of any of its securities that are listed on the Exchange or in rights or privileges of the holders thereof without giving twenty-one days prior notice to the Exchange of the proposed change and making an application for listing of the securities as change if the Exchange shall so require.

29. The Company will promptly notify the Exchange of any proposed change in the general character or nature of its business.

30. The Company will promptly notify the Exchange :—

- (a) of any change in the Company's directorate by death, resignation, removal or otherwise;
- (b) of any change of Managing Directors, Managing Agents, or Secretaries and Treasurers;
- (c) of any change of Auditors appointed to audit the books and accounts of the Company.

31. The Company will forward to the Exchange promptly and without application :—

- (a) six copies of the Statutory and Directors' Annual Reports, Balance Sheets and Profit and Loss Accounts and of all periodicals and special reports as soon as they are issued, and one copy each to all the recognised Stock Exchanges in India;
- (b) six copies of all notices, resolutions and circulars relating to new issue of capital prior to their despatch to the Shareholders;
- (c) three copies of all notices, call letters or any other circulars, at the same time as they are sent to the shareholders or debenture-holders or advertised in the Press;
- (d) copy of the proceedings of all Annual and Extra-ordinary General Meeting of the Company;
- (e) three copies of all notices, circulars, etc., issued or advertised in the Press either by the Company, or by any company which the Company proposes to absorb or with which the company proposes to merge or amalgamate, or under orders of the Court or any other statutory authority in connection with any merger, amalgamation, re-construction, reduction of capital, scheme or arrangement including notices, circulars, etc., issued or advertised in the Press in regard to meeting of shareholders or debenture-holders or creditors or any class of them and copies of the proceedings of all such meetings.

32. The Company will supply, upon application, a copy of the Directors' Annual Report, Balance Sheet and Profit and Loss Account to any member of the Exchange.

33. The Company will forward to the Exchange copies of all notices sent to its shareholders with respect to amendments to its Memorandum and Articles of Association and will file with the Exchange six copies (one of which will be certified) of such amendments as soon as they shall have been adopted by the Company in general meeting.

34. The Company agrees :—

- (a) that it will not exercise a lien on its fully paid shares and that in respect of partly paid shares it will not exercise any lien except in respect of moneys called or payable at a fixed time in respect of such shares;
- (b) that it will not decline to register or acknowledge any transfer of shares on the ground of the transferor being either alone or jointly with any other person or persons indebted to the Company on any account whatsoever;
- (c) that it will not forfeit unclaimed dividends before the claim becomes barred by law and that such forfeiture, when effected, will be annulled in appropriate cases;

(d) that if any amount be paid up in advance of calls on any shares it will stipulate that such amount may carry interest but shall not in respect thereof confer a right to dividend or to participate in profits;

(e) that it will not give to any person the call of any shares without the sanction of shareholders in general meeting;

(f) that it will sent out proxy forms to shareholders and debenture-holders in all cases where proposals other than of a purely routine nature are to be considered, such proxy forms being so worded that a shareholder or debentureholder may vote either for or against each resolution;

(g) that when notice is given to its shareholders by advertisement it will advertise such notice in at least one leading Pune daily newspaper.

35. The Company agrees to file with the Exchange immediately after each Annual General Meeting a schedule in the form prescribed by the Exchange showing the distribution of its securities listed on the Exchange as at the date of the Annual General Meeting and the names and holdings of large holders as required therein.

36. The Company will furnish to the Exchange on request such information concerning the Company as the Exchange may reasonably require.

37. The Company agrees to permit the Exchange to make available immediately to its members and to the Press any information supplied by the Company in compliance with any of the listing requirements provided that in cases where it is contended that such disclosure might be detrimental to the Company's interests a special submission to that effect may be made for the consideration of the Exchange when furnishing the information.

38. The Company agrees that as soon as its securities are listed on the Exchange it will pay to the Exchange an initial Listing Fee as prescribed in Schedule II hereto annexed and made a part hereof and that thereafter so long as securities continued to be listed on the Exchange it will pay to the Exchange before the 31st January in each year an Annual Listing Fee to be calculated as to each payment as provided in Schedule II referred to above.

39. The Company agrees that in the event of the application for listing being granted such listing shall be subject to the Rules, Bye-laws and Regulations of the Exchange which now are or hereafter may be in force and the Company further agrees to comply within a reasonable time with such further regulations as may be promulgated by the Exchange as a general requirement for new listings.

40. The Company agrees that it is also a condition for continued listing of its shares, that,

- (a) No individual or individuals, group, constituent of a group or body corporate shall



jointly or severally, whether in his or its own name or in the name of any other person;

- (i) acquire or agree to acquire any shares in a company whose shares are listed on a recognised Stock Exchange, if the total nominal value of such shares intended to be acquired exceeds or would exceed, together with the total nominal value of the shares already held by such holder, holders in that company in the aggregate, 25 per cent of the voting capital of such company, or
- (ii) secure the effective control of management of a company, by acquiring or agreeing to acquire, irrespective of the percentage of the voting capital, the shares of the Directors or other members, who by virtue of their shareholdings together with the shareholdings of their relatives, nominees, family interest, and group effectively control or manage the company.

unless the individual/individuals, group, constituent of a group, or body corporate, as the case may be, before acquisition of such shares makes an offer to the remaining members of the company to acquire their shares at a price not lower than the price at which the share of the company referred to in sub-clauses (i) and (ii) above are being acquired/agreed to be acquired and on such terms and conditions as may be approved by the regional Stock Exchange where the registered office of the company is situate:

Provided that the offer to the remaining shareholders shall not under any circumstances result in the public shareholding being reduced to less than 20 per cent of the voting capital of the company.

#### EXPLANATION :—

- (i) The expression "group" shall have the meaning assigned to it for the time being in the Monopolies and Restrictive Trade Practices Act, 1969.
- (ii) The express "family interest" in relation to Director includes spouse, children, trusts in which the Director or spouse is a settlor or a trustee and in which the Director or spouse or any children are beneficiaries or such trusts with discretionary objects.
- (b) Nothing in sub-clause (a) shall apply to the acquisition of shares pursuant to any rehabilitation proposal for take-over of mis-managed units or sick units approved by a public financial institution specified in Section—4A of the Companies Act, 1956 or a developmental or investment agency of a State Government, or by such institutions/agencies themselves pursuant to any rehabilitation proposal for take-over of mis-managed units or sick units or where such acquisition of shares does not result in the

effective control of management of the company by these bodies.

- (c) In all cases of such purchases of shares as hereinbefore specified, the purchaser shall as soon as the offer is made for the acquisition of such shares;
  - (i) forthwith notify the Stock Exchanges where the shares listed, the fact that the offer has been made and confirmed, and
  - (ii) make an announcement at least once in an English daily newspaper circulating in the whole or substantially the whole of India and in a newspaper published in the language of the region where the registered office of the company is situate.
- (d) Notification to the Stock Exchanges and announcement in newspapers referred to in sub-clause (c) above shall be in such form and content as may be prescribed by the regional Stock Exchange.
- (e) After the negotiations are completed, both the purchaser and the seller shall intimate the Stock Exchange where the shares are listed about the conclusion of the deal.
- (f) The offer to the remaining members of the company referred to in sub-clause (a) above shall be in the form of a circular approved by the Regional Stock Exchange.
- (g) The circular shall contain the following particulars :
  - (i) the names and addresses of the purchaser and seller and of any other person or company who issues the circular on behalf of the purchaser;
  - (ii) the background and identity of all persons by whom or on whose behalf the offer to purchase is made;
  - (iii) the details of the source and amount of the funds or other resources for acquiring the interest; and if any part of the purchase price is represented by borrowings or otherwise, full disclosure of the details of such borrowings and the names of the parties thereto;
  - (iv) detailed terms of the offer to purchase including particulars of the securities for which the offer is made;
  - (v) the entitlement to divided of the shares in question;
  - (vi) the purchase price per share offered;
  - (vii) the period or the duration of the offer specifying the time within which the offer has to be accepted;
  - (viii) statements of all terms and conditions pertaining to acceptance, including particulars of all documents required to be validly lodged;

- (ix) how the cash consideration for the shares will be paid or received;
  - (x) whether the purchase is being made with a view to acquiring the management or control of the company;
  - (xi) the intentions of the interest or group or purchaser with regard to the employees of the company;
  - (xii) the continuance of the existing business, or to make any other major change in the structure of the business of the company;
  - (xiii) the plans or proposals, if any, for liquidating the company or for disposing of its assets or to merge it with any other company.
- (h) The offer shall be made within two weeks from the date of approval by the Stock Exchange and shall be kept open for at least six weeks from the date of the offer.
- (i) In the event of any change in the terms of the offer, the period of offer shall be extended and it shall remain open for at least further six weeks from the time the change in the terms has been made unless the regional Stock Exchange agrees otherwise;
- (j) When an offer has been made to the members of the company, if the interest or group either alone or in association with others purchases shares in the market or acquires privately or otherwise at a price above the offer price during the period the offer is open to the shareholders for acceptance, it shall offer to all acceptance as well as to the uncommitted shareholders an increased price which shall not be less than the highest price of the shares so acquired during such period, any difference or short payment arising therefrom being payable within 30 days of the last day of acceptance for the offer.
- (k) The circulars shall state whether a full or partial offer is made to all the shareholders, disclosing the reasons for making a partial offer. However, in cases where partial offer is made to the shareholders for purchasing from them a portion of their holdings on a pro rata basis a full offer to purchase the entire shareholdings shall be made to the members of the company holding shares of the face value of upto Rs. 500.
- (l) All shareholders of the same class of shares in the company shall be treated alike on par, in every respect without any difference or discrimination whatsoever.
- (m) When a change in the management of the company is involved as a result of the purchase of shares, such change shall be intimated to the Government at the same time as the offer is made for each class of shares.
- (n) When a change in the management of the company is involved as a result of the purchase of share, such change shall be intimated to the Government at the same time as the offer is made by the purchaser.
- (o) The Exchange shall suspend dealings in the shares of the company in the market if during the currency of the offer the interest or group referred to hereinabove makes any sales or purchases inconsistent with the declared terms and conditions of the offer.
- (p) In the event of any failure to comply with any of the above provisions, the Stock Exchange shall withdraw the admission to dealings in the shares of the company in which the party in default has acquired or subsequently acquires a beneficial interest.

The provisions contained in this clause will be without prejudice to the approval required to be obtained under the Companies Act, MRTP Act and Foreign Exchange (Regulation) Act, 1973 :

PROVIDED ALWAYS AND THE COMPANY HEREBY IRREVOCABLY AGREES AND DECLARES THAT unless the Exchange agrees otherwise the Company will not without the previous permission in writing of the Central Government withdraw its adherence to this agreement for listing its securities.

AND THE COMPANY HEREBY FURTHER AGREES AND DECLARES THAT and of its securities listed on the Exchange shall remain on the list entirely at the pleasure of the Exchange and that nothing herein contained shall restrict or be deemed to restrict the right of the Exchange to suspend or remove from the list the said securities at any time and for any reason which the Exchange considers proper in its absolute discretion.

In witness whereof the Company has caused these presents to be executed and its Common Seal to be hereunto affixed as of the day and year first above written.

*Schedule of Company's Listed Securities*

| Kind of Security (Shares) | Number issued | Nominal Value per Share Rs. | Paid-up Value per Share Rs. | Total Nominal Value Rs. | Total Paid-up Value Rs. | Distinctive Numbers |
|---------------------------|---------------|-----------------------------|-----------------------------|-------------------------|-------------------------|---------------------|
|---------------------------|---------------|-----------------------------|-----------------------------|-------------------------|-------------------------|---------------------|

| Kind of Security Debentures | Amount Rs. | Unit Rs. | Rate of Int. per cent | Int. due date | Date of Redemption | Distinctive Numbers |
|-----------------------------|------------|----------|-----------------------|---------------|--------------------|---------------------|
|-----------------------------|------------|----------|-----------------------|---------------|--------------------|---------------------|

*Schedule II above referred to:*

**SCHEDULE OF LISTING FEES**

|                                                                      | Rs.   |
|----------------------------------------------------------------------|-------|
| 1. Initial Listing Fee . . . . .                                     | 2,000 |
| 2. Annual Listing Fee:                                               |       |
| Companies with paid-up shares and/or debenture capital:              |       |
| Under Rs. 10 lakhs. . . . .                                          | 500   |
| from Rs. 10 lakhs but under Rs. 25 lakhs . . . . .                   | 800   |
| from Rs. 25 lakhs but under Rs. 50 lakhs . . . . .                   | 1,600 |
| from Rs. 50 lakhs but under Rs. 1 crore . . . . .                    | 3,500 |
| from Rs. 1 crore but under Rs. 3 crores . . . . .                    | 5,000 |
| from Rs. 3 crores and over . . . . .                                 | 6,000 |
| For every new issue through prospectus by a listed company . . . . . | 1,000 |

The Common Seal of the above named \_\_\_\_\_

SEAL

was hereunto affixed pursuant to a resolution passed at a meeting of  
the Board of Directors held on the \_\_\_\_\_ day of \_\_\_\_\_  
19 \_\_\_\_\_ in the presence of \_\_\_\_\_

(Signature of Director)

\_\_\_\_\_  
Director(s) of the Company

(Signature of Director)

### Minimum Financial Liquidity Ratio for Members of Stock Exchanges

For a person to be admitted to the Membership of the Stock Exchange, in addition to his educational qualification and experience in business in securities, yet another important requisite is the quantum of financial resources he brings in by way of input of capital investment for carrying on the business in securities. The capital investment in business by a stockbroker should be sufficient and satisfactory to inspire the confidence of other stockbrokers and the public investors who deal with him. The investment of the stockbroker in physical terms should be of the order whereby he has adequate resources of his own, commensurate with his business obligations in the market from time to time, so that he is in a position to give and take delivery of documents against payment on behalf of his clients. In the normal course of business, a stockbroker is to pay for documents when delivered by the selling stockbroker of selling client. For this he should have financial resources of his own. It is therefore necessary for a person seeking admission to membership of a Stock Exchange to establish proof of his solvency and financial strength initially for setting up business in securities and thereafter in relation to the volume of transactions and market operations on behalf of his clients with fellow stockbrokers and also his market obligations to his clients.

2. In developed countries, most Stock Exchanges require the members to maintain a Net Capital, Minimum Liquidity Margin, Adjusted Liquid Capital and Aggregate Indebtedness with the object of ensuring that the volume of transactions of the member do not exceed the business justified by his financial strength.

#### Position In India—Capital Finance

3. In India, the several payment difficulties that have been experienced from time to time in the major Stock Exchanges stem from the fact that there is no automatic regulation linking the overall input of capital for business in securities by members by Stock Exchanges and the aggregate volume of business they transact at any one given point of time. In fact, there should be some statutory requirement about the minimum financial outlay to be set apart for business in securities by Members of Stock Exchanges, and the volume of business and other market commitment of the members should be related to the financial outlay. This regulation should strictly be enforced in the case of all members uniformly, on all the Stock Exchanges. At present there is no such relationship prescribed either under 'the Securities Contracts' (Regulation) Act, the Rules framed thereunder or the Bye-laws and Regulations of the Stock Exchanges. Recourse to the provision relatively to adhoc margin contained in the Regulations is not made frequently and adequately to avert any crisis.

4. In this connection, it is worthwhile to study the position obtaining in some of the overseas Stock Exchanges. They have a system of Net Capital of Minimum Liquidity requirements.

#### U.S. Model : New York Stock Exchange

##### *Finance of Stockbrokers*

5. In the United States of America, there is a standard formula of relationship between business undertaken by a Stockbroker and his financial position. This is secured through a system of maintenance of a level of Net Capital, to rate the solvency of a member of the New York Stock Exchange.

6. The New York Stock Exchange defines Net Capital, as the Net Worth of the Stockbroker, subject to several adjustments. The requirement provides that Net Capital should not be less than (a) 1/15th of aggregate indebtedness or (b) 25,000 per member, whichever is higher with higher limits in specified cases.

7. A Stockbroker firm is deemed to have adequate financial strength if its aggregate indebtedness does not exceed its Net Capital by more than 10 times. Whenever this ratio of 10 times is exceeded by a member firm, it is warned and cautioned not to expand its business any further. If the firm still expands and the liquidity ratio exceeds 12 times, the firm is directed to take steps to reduce its business turnover. Should however the member-firm disregard the directions of the Exchange and the ratio of its aggregate indebtedness exceeds 15 times its net capital, the firm is forced to go into liquidation.

#### *National Association of Securities Dealers, U.S.*

8. On the National Association of Securities Dealers (NASD) in the U.S., the aggregate indebtedness of broker or a dealer shall not exceed 1500% of his net capital.

#### United Kingdom Model, Members Finance

9. Similarly in the United Kingdom, the London Stock Exchange is regulating the operations of Members by a system of "Minimum Liquidity Margin". This minimum liquidity margin is related to be greater than two months of annual audited expenditure or the aggregate product calculated at £ 5000 for each partner of the firm as indicated in the following paragraph.

10. The London Stock Exchange Rules define the Minimum Liquidity Margin as equal to the excess of the Approved Assets over the Approved Liabilities

and provide that the Minimum Liquidity Margin shall not be less than the greater of :

- (a) 2 months annual audited expenditure  
or
- (b) (i) £5,000 per partner plus;  
(ii) £5,000 per branch, plus  
(iii) Uncovered insurance loss

with higher limits for members carrying on option business or business on their own account.

#### **Australian Model : Financial Resources**

11. The Australian Stock Exchanges define Adjusted Liquid Capital analogous to Minimum Liquidity Margin or Net Capital, as the aggregate of :

- (a) liquid capital;
- (b) approved adjustments; and
- (c) approved subordinated debt.

Liquid Capital is defined as the sum of total current assets valued at the lower of cost or market, adjusted by deducting total liabilities and any excluded assets included in current assets.

12. The rules provide that Adjusted Liquid Capital shall not be less than the greater of :

- (a) 1/20th of aggregate indebtedness  
or
- (b) \$ 50,000 per member organisation or  
\$ 100,000 per member corporation.

In both the U.S. and U.K., the authorities of the Stock Exchanges are empowered to raise these requirements about the financial security of members at the discretion of the management.

13. Taking into account the nature of the volume of business and the high prices presently ruling for shares in India, a stockbroker should have adequate finance initially as capital invested for his business in securities and should thereafter trade in the market. In our view, the minimum initial capital investment in accordance with his financial viability should be atleast Rs. 1 lakh for members of minor stock exchanges and Rs. 2 lakhs for members of major Stock Exchanges, besides entrance fees, and security deposits as suggested in the Chapter on Membership to enable the stockbroker to meet requirements of day-to-day business obligations. Further, depending on the volumes of business done by individual members or firms, an additional security deposit should also be collected from Members related to the overall volume of business transacted. The objective of prescribing minimum levels of financial stability is to ensure certain amount of fiduciary cover for the safety and protection of the other members of the Stock Exchanges in their securities business inter se and to the large circle of clients who deal with the members of Stock Exchanges.

#### **Underwriting : Finance**

14. Members of Stock Exchanges should also be subject to regulation relating to the quantum of underwriting they do in respect of public issues of securities in addition to the overall quantum of trading and business in securities. The underwriting limit for each stockbroker should be pegged to the financial strength of each member which necessarily has to be based on the total input of capital invested for business and the outstanding-business commitments of each member at a particular point of time.

15. No member firm should be permitted to individually underwrite more than 10% of the public issue of securities subject to a maximum limit of Rs. 25 lakhs in respect of a single issue of securities. In addition to this, there should be prescribed an overall ceiling with regard to the overall quantum of underwriting obligation of each member outstanding at a given point of time. It should statutorily be laid down that no member should have a subsisting underwriting obligation current at any one time beyond Rs. 50 lakhs for each member firm.

16. The Stock Exchanges should keep a complete record of the underwritings of members to facilitate monitoring the over all performances. Besides the Exchanges should also assess the individual member brokers' financial strength and viability while permitting them to underwrite public issue of securities and not allow members to underwrite on an ad hoc basis as is done presently.

17. The Committee is of the view, taking into account the conditions prevailing in Indian Stock Exchanges, in addition to the margin systems which are to be operative on an automatic basis a well codified Minimum Liquidity Ratio has to be evolved for maintaining the financial stability of stockbrokers. Within the general regulations mentioned hereinabove, the Committee suggests that there is need for a greater deal of sophistication for different types of activities, entities, assets and liabilities.

18. Any scheme for laying down Minimum Liquidity Ratio should be :

- (a) simple to operate;
- (b) further, as all members do not maintain pucca accounting records, the scheme should not involve highly specialised system of accounts;
- (c) the scheme should provide for an inbuilt system of day-to-day monitoring which should be independent of accounting records.

19. Taking the above factors into account, the Committee suggests the following broad scheme for adoption :

- (a) The outstanding position of members shall be monitored periodically on the basis of security deposits;

- (b) The total overall limit of business commitments shall be controlled and regulated on basis of liquidity ratio.

#### **Deposit :**

- (a) Each member shall be required to maintain a Security Deposit, as recommended in the Chapter on Membership.
- (b) There shall be a minimum security deposit per member which will entitle the member to maintain a gross open position of a stipulated amount—say 50 times of the Security Deposit, taking into account aggregate sales and purchases outstanding at any one time.
- (c) As soon as the gross open position exceeds the stipulated amount, the member shall be called upon to place an additional deposit at the rate of—say 5 per cent of the excess gross position or liquidate within a specified period the excess gross open position to bring the outstanding within the limits covered by the Security Deposit. Besides there should be overall limit on the total gross position a member can acquire at any point of time. This limit may vary from one Stock Exchange to another.
- (d) The gross open position shall be monitored on a day-to-day basis related to the daily transactions reported by the member;
- (e) The Stock Exchange shall reserve the right to call for additional Security Deposits in special circumstances, such as :
  - (i) when the open position in relation to a particular security is too high;
  - (ii) when there are wide fluctuations in a particular security;
  - (iii) when there are doubts about the members' financial ability to meet his commitments, etc.

#### **Minimum Financial Liquidity Ratio :**

- (a) The Minimum Financial Liquidity Ratio shall be defined as the excess of Approved Assets over Total Liabilities;
- (b) The Minimum Financial Liquidity Ratio as at the end of a period shall determine the total limit of commitments during the subsequent period thus :—
  - (i) irrespective of the amount of the security deposit, the gross open position of a member shall not exceed at a time a specified multiple of the Minimum Financial Liquidity Ratio—say 25 times or in physical quantum Rs. 50 lakhs, whichever is less;
  - (ii) The total outstanding commitment under underwriting contracts cannot exceed at any time a specified multiple of the Minimum Financial Liquidity Ratio—say 25

times or in physical quantum Rs. 50 lakhs, whichever is less.

- (c) The Minimum Financial Liquidity Ratio shall also be used by the Stock Exchange to control such other activities of the member as it may decide from time to time.

20. (a) Approved Assets will have to be specified but will generally include only assets which can be easily liquidated.

- (b) For the purposes of Minimum Financial Liquidity Ratio, the assets shall be taken at their market values but adjusted with suitable discounts based on the type of assets.

**Illustration :** There would be a smaller discount for Government Securities and debentures and a larger discount for shares.

(c) The aggregate value of assets of a type of assets within a type to be considered for the Minimum Financial Liquidity Ratio shall be subject to a ceiling. For example, it may be provided that the total value of shares shall not exceed a specified percentage of the total approved assets and that the total value of the shares of a single company shall not exceed a specified percentage of the total investment in shares.

(d) Certain assets shall be excluded from the Minimum Financial Liquidity Ratio for example, amounts due from customers which have remained uncollected for a specified period—say 3 months or more.

21. Liabilities shall include all liabilities pertaining to the business of the member in relation to securities transactions.

22. Special provisions shall have to be made for uncovered position. For example,

- (a) where the stockbroker has an over-sold position, the position would be included in liabilities and the market value of the shares to be brought to settle the position will be considered as an asset but valued at a specified discount in relation to the market value.
- (b) where the stockbroker has an over-bought position, the shares included in the Approved Assets, to the extent of the over-bought position, will be valued after a further specified discount.

23. The Minimum Financial Liquidity Ratio as at the end of each year shall be certified by the member's qualified auditors and the member shall report the Minimum Liquidity Ratio on an unaudited basis at the end of each quarter, i.e. once in three months.

24. There shall be floor Minimum Financial Liquidity Ratio to be maintained at all times by the member. The floor level will depend upon the number of partners in the member firm.

In addition to these provisions the Stock Exchange authorities shall be vested with the powers to regulate day-to-day trading through a scheme of margins which shall be designed to be operative on an automatic basis.

## ANNEXURE 12

### Draft Legislation

#### *Prohibition of Dealings in securities by Insiders*

(1) A person who is, or at any time in the preceding 6 months has been, connected with a body corporate shall not deal in any securities of that body corporate if by reason of his so being, or having been, connected with that body corporate he is in possession of information that is not generally available but, if it were, would be likely materially to affect the price of those securities.

(2) A person who is, or at any time in the preceding 6 months has been, connected with a body corporate shall not deal in any securities of any body corporate if by reason of his so being, or having been, connected with the first-mentioned body corporate he is in possession of information that—

(a) is not generally available but, if it were, would be likely materially to affect the price of those securities; and

(b) relates to any transaction (actual or expected) involving both those bodies corporate or involving one of them and securities of the other.

(3) Where a person is in possession of any such information as is mentioned in sub-section (1) or (2) that if generally available would be likely materially to affect the price of securities but is not precluded by either of those sub-sections from dealing in those securities, he shall not deal in those securities if—

(a) he has obtained the information, directly or indirectly, from another person and is aware, or ought reasonably to be aware, of facts or circumstances by virtue of which that other person is then himself precluded by sub-section (1) or (2) from dealing in those securities; and

(b) when the information was so obtained, he was associated with that other person or had with him an arrangement for the communication of information of a kind to which those sub-sections apply with a view to dealing in securities by himself and that other person or either of them.

(4) A person shall not, at any time when he is precluded by sub-section (1), (2) or (3) from dealing in any securities, cause or procure any other person to deal in those securities.

(5) A person shall not, at any time when he is precluded by sub-section (1), (2) or (3) from dealing in any securities by reason of his being in possession of any information, communicate that information to any other person if—

(a) trading in those securities is permitted on any of the stock-markets in the country, and

(b) he knows, or ought reasonably to know, that the other person will make use of the information for the purpose of dealing, or causing or procuring another person to deal, in those securities.

(6) Without prejudice to sub-section (3) but subject to sub-sections (7) and (7A), a body corporate or a trust shall not deal in any securities at a time when any officer of that body corporate or trust is precluded by sub-section (1), (2) or (3) from dealing in those securities.

(7) A body corporate or trust is not precluded by sub-section (6) from entering into a transaction at any time by reason only of information in the possession of an officer of that body corporate or trust if—

(a) the decision to enter into the transaction was taken on its behalf by a person other than the officer;

(b) it had in operation at that time arrangements to ensure that the information was not communicated to that person and that no advice with respect to the transaction was given to him by a person in possession of the information; and

(c) the information was not so communicated and such advice was not so given.

(7A) A body corporate is not precluded by sub-section (6) from dealing in securities of another body corporate at any time by reason only of information in the possession of an officer of that first-mentioned body corporate, being information that was obtained by the officer in the course of the performance of his duties as an officer of that first-mentioned body corporate and that relates only to proposed dealings by that first-mentioned body corporate or trust in securities of that other body corporate.

(8) For the purposes of this section, a person is connected with a body corporate if, being a natural person —

(a) he is an officer of that body corporate or of a related body corporate;

(b) he is a substantial shareholder with 5% share holding in that body corporate or in a related body corporate or a trustee of a trust;

(c) he occupies a position that may reasonably be expected to give him access to information of a kind to which sub-sections (1) and (2) apply by virtue of—

(i) any professional or business relationship existing between himself (or his employer or a body corporate of which he is an officer) and that body corporate or a related body corporate; or

(ii) his being an officer of a substantial shareholder with 5% share holding in that body corporate or in a related body corporate.

(9) This section does not preclude a member of a recognised stock exchange from dealing in securities, or rights or interests in securities, of a body corporate, being securities or rights or interests that are permitted by a stock exchange to be traded on the stock market of that stock exchange, if—

(a) the member of a recognised stock exchange enters into the transaction concerned as agent for another person pursuant to a specific instruction by that other person to effect that transaction;

(b) the member of a recognised stock exchange has not given any advice to the other person in relation to dealing in securities, or rights or interests in securities, of that body corporate that are included in the same class as the first-mentioned securities; and

(c) the other person is not associated with the members of a recognised stock exchange.

(10) Where a prosecution is instituted against a person for an offence by reason that the person was in possession of certain information and entered into a transaction in contravention of this section, it is a defence if the person satisfies the court that the other party to the transaction knew, or ought reasonably to have known, of the information before entering into the transaction.

(11) For the purposes of sub-section (8), "officer" in relation to a body corporate, includes—

(a) a director (& their relatives as defined in the Companies Act, 1956), secretary, executive officer or employee of the body corporate;

(b) a receiver, or a receiver or manager, of property of the body corporate;

(c) an official above & including the rank of a manager or a deputy official manager of the body corporate;

(d) a liquidator of the body corporate; and

(e) a trustee or other person administering a compromise or arrangement made between the body corporate and another person or other persons.

For the purpose of this section, dealing in securities includes dealings in securities without any intention of taking or giving actual delivery of securities and dealings in trading after official trading hours of the stock exchanges.

#### Penalty

(a) in case of a person not being a body corporate—Rs. 1 lac or imprisonment for 5 years or both.

(b) in case of a person being a body corporate or a trust—Rs. 5 lacs.



## APPENDIX B to REGULATION 14

Form A

Contract Note—Form A

No. ....

(Regulation 14.2)

## SUBJECT TO BOMBAY JURISDICTION

Contract Note issued by Members acting for constituents as Brokers and Agents

Name of Member/Firm

Name(s) of Proprietor/Partners (if any)

Stamp as required under Article 43(b) or 43 (bb) of Schedule I to the Indian Stamp Act, where necessary

To .....

Sir(s),

I/We have this day done by your order and on your account the following transactions:

| Securities BOUGHT FOR you for ———— Delivery/Clearing |                  |      | Securities SOLD FOR you for ———— Delivery/Clearing |                  |      |
|------------------------------------------------------|------------------|------|----------------------------------------------------|------------------|------|
| Quantity                                             | Kind of Security | Rate | Quantity                                           | Kind of Security | Rate |
|                                                      |                  |      |                                                    |                  |      |
|                                                      |                  |      |                                                    |                  |      |
|                                                      |                  |      |                                                    |                  |      |
|                                                      |                  |      |                                                    |                  |      |
|                                                      |                  |      |                                                    |                  |      |
|                                                      |                  |      |                                                    |                  |      |
|                                                      |                  |      |                                                    |                  |      |
|                                                      |                  |      |                                                    |                  |      |
|                                                      |                  |      |                                                    |                  |      |

This contract is made subject to the Rules, Bye-laws and Regulations and usages of The Stock Exchange, Bombay.

Brokerage has been charged at rates not exceeding the official scale of brokerage and is included in the price.

This contract is subject to the jurisdiction of the Courts in Bombay.

In the event of any claim (whether admitted or not), difference or dispute arising between you and me/us out of these transactions the matter shall be referred to arbitration in Bombay as provided in the Rules, Bye-laws and Regulations of The Stock Exchange, Bombay.

This contract constitutes and shall be deemed to constitute as provided overleaf an agreement between you and me/us that all claims (whether admitted or not), differences and disputes in respect of any dealings, transactions and contracts of a date prior or subsequent to the date of this contract (including any question whether such dealings, transactions or contracts have been entered into or not) shall be submitted to and decided by arbitration in Bombay as provided in the Rules, Bye-laws and Regulations of The Stock Exchange, Bombay.

The provisions printed below form a part of the contract.

Bombay,

19

Yours faithfully,

Member(s) of The Stock Exchange, Bombay.

## Reference to Arbitration

(a) All claims (whether admitted or not), differences and disputes between a member and a non-member or non-members (the terms "non-member" and "non-members" shall include a remisier, authorised clerk or employee or any other person with whom the member shares brokerage) arising out of or in relation to dealings, transactions and contracts made, subject to the Rules, Bye-laws and Regulations of the Exchange or with reference to anything incidental thereto or in pursuance thereof or relating to their construction, fulfilment or validity or relating to the rights, obligations and liabilities of remisiers, authorised clerks, employees or any other persons with whom the member shares brokerage in relation to such dealings, transactions and contracts shall be referred to and decided by arbitration as provided in the Rules, Bye-laws and Regulations of the Exchange.

### Contract Constitutes Arbitration Agreement

(b) An acceptance whether express or implied of a contract subject to arbitration as provided in sub-clause (a) and with this provision for arbitration incorporated therein shall constitute and shall be deemed to constitute an agreement between the member and the non-member or non-members concerned that all claims (whether admitted or not), differences and disputes of the nature referred to in sub-clause (a) in respect of all dealings, transactions and contracts of a date prior or subsequent to the date of the contract shall be submitted to and decided by arbitration as provided in the Rules, Bye-laws and Regulations of the Exchange and that in respect thereof any question whether such dealings, transactions and contracts have been entered into or not shall also be submitted to and decided by arbitration as provided in the Rules, Bye-laws and Regulations of the Exchange.

### Appointment of Arbitrators

(a) All claims, differences and disputes required to be referred to arbitration under these Bye-laws and Regulations shall be referred to the arbitration of two members of the Exchange one to be appointed by each party.

### Appointment of Arbitrators by Parties Jointly or by Partnership Firm

(b) When the claim is against or the difference or dispute with two or more parties jointly or in the alternative or against or with a partnership firm such parties or partners (as the case may be) shall concur in the appointment of one arbitrator and failing such concurrence they shall be deemed to have failed to make an appointment as required in sub-clause (a).

### Appointment of Arbitrators by the Governing Board or President

On payment in advance of the minimum fees of arbitrators prescribed under these Bye-laws and Regulations by any party to a claim difference or dispute the Governing Board or the President shall appoint an arbitrator—

- (i) if after one party has appointed an arbitrator ready and willing to act there is failure, neglect or refusal on the part of the other party or parties to appoint an arbitrator (ready and willing to act) within seven days after service of written notice of that appointment or within such extended time as the Governing Board or the President may on the application of the other party or parties allow; or
- (ii) if either of the arbitrators dies or fails or neglects or refuses to act or becomes incapable of acting as an arbitrator before an award is made by them.

### Notice and Communications How to be Served

Notices and communications to a member or non-member shall be served in any one or more or all of the following ways and any such notice or communication under (i) to (v) below shall be served at his ordinary business address and/or at his ordinary place of residence and/or at his last known address:

- (i) by delivering it by hand;
- (ii) by sending it by registered post;
- (iii) by sending it under certificate of posting;
- (iv) by sending it by express delivery post;
- (v) by sending it by telegram;
- (vi) by affixing it on the door at last known business or residential address;
- (vii) by its oral communication to the party in the presence of a third person;
- (viii) by advertising it at least once in any daily newspaper published in Bombay;
- (ix) by a notice pasted on the notice board of the Exchange if no address be known.

### Operation of Contracts

All dealings, transactions and contract which are subject to the Rules, Bye-laws and Regulations of the Exchange and every arbitration agreement to which the Rules, Bye-laws and Regulations of the Exchange apply shall be deemed in all respect to be subject to the Rules, Bye-laws and Regulations of the Exchange and shall be deemed to be and shall take effect as wholly made, entered into and to be performed in the City of Bombay and the parties to such dealings, transactions, contracts or agreements shall be deemed to have submitted to the jurisdiction of the Courts in Bombay for the purpose of giving effect to the provisions of the Rules, Bye-laws and Regulations of the Exchange.

## APPENDIX B to REGULATION 14

## Contract Note— Form B

(Regulation 14.2)

## SUBJECT TO BOMBAY JURISDICTION

Contract Note issued by Members dealing with constituents as Principals

Name of Member/Firm

Name(s) of Proprietor/Partners (if any)

To

Stamp as required under  
Article 5(aa) or 5(b) or Schedule I to the Indian Stamp Act.

Sir(s),

I/We have this day entered into the following transactions with you as PRINCIPAL(S) to PRINCIPAL(S):

Securities SOLD TO you for \_\_\_\_\_ Delivery/Clearing      Securities BOUGHT FROM you for \_\_\_\_\_ Delivery/Clearing

| Quantity | Kind of Security | Rate | Quantity | Kind of Security | Rate |
|----------|------------------|------|----------|------------------|------|
|          |                  |      |          |                  |      |

This contract is made subject to the Rules, Bye-laws and Regulations and usages of The Stock Exchange, Bombay.

This contract is subject to the jurisdiction of the Courts in Bombay.

In the event of any claim (whether admitted or not), difference or dispute arising between you and me/us out of these transactions the matter shall be referred to arbitration in Bombay as provided in the Rules, Bye-laws and Regulations of The Stock Exchange, Bombay.

This contract constitutes and shall be deemed to constitute as provided overleaf an agreement between you and me/us, that all claims (whether admitted or not), differences and disputes in respect of any dealings, transactions and contracts of a date prior or subsequent to the date of this contract (including any question whether such dealings, transactions or contracts have been entered into or not) shall be submitted to and decided by arbitration in Bombay as provided in the Rules, Bye-laws and Regulations of The Stock Exchange, Bombay.

The provisions printed overleaf form a part of the contract.

Bombay

19

Yours faithfully,

\_\_\_\_\_  
Member(s) of The Stock Exchange, Bombay

### Reference to Arbitration

(a) All claims (whether admitted or not), differences and disputes between a member and a non-member or non-members (the terms "non-member" and "non-members" shall include a remisier, ~~authorised clerk~~ or employee or any other person with whom the member shares brokerage) arising out of or in relation to dealings, transactions and contracts made subject to the Rules, Bye-laws and Regulations of the Exchange or with reference to ~~anything incidental thereto or in pursuance thereof~~ relating to their construction, fulfilment or validity or relating to the rights, obligations and liabilities of remisiers, authorised clerks, employees or any other persons with whom the member shares brokerage in relation to such dealings, transactions and contracts shall be referred to and decided by arbitration as provided in the Rules, Bye-laws and Regulations of the Exchange.

### Contract Constitutes Arbitration Agreement

(b) An acceptance whether express or implied of a contract subject to arbitration as provided in sub-clause (a) and with this provision for arbitration incorporated therein shall constitute and shall be deemed to constitute an agreement between the member and the non-member or non-members concerned that all claims (whether admitted or not), differences and disputes of the nature referred to in sub-clause (a) in respect of all dealings, transactions and contracts of a date prior or subsequent to the date of the contract shall be submitted to and decided by arbitration as provided in the Rules, Bye-laws and Regulations of the Exchange and that in respect thereof any question whether such dealings, transactions and contracts have been entered into or not shall also be submitted to and decided by arbitration as provided in the Rules, Bye-laws and Regulations of the Exchange.

### Appointment of Arbitrators

(a) All claims, differences and disputes required to be referred to arbitration under these Bye-laws and Regulations shall be referred to the arbitration of two members of the Exchange one to be appointed by each party.

### Appointment of Arbitrators by Parties Jointly or by Partnership Firm

(b) When the claim is against or the difference or dispute with two or more parties jointly or in the alternative or against or with a partnership firm such parties or partners (as the case may be) shall concur in the appointment of one arbitrator and failing such concurrence they shall be deemed to have failed to make an appointment as required in sub-clause (a).

### Appointment of Arbitrators by the Governing Board or President

On payment in advance of the minimum fees of arbitrators prescribed under these Bye-laws and Regulations by any party to a claim, difference or dispute the Governing Board or the President shall appoint an arbitrator—

- (i) if after one party has appointed an arbitrator ready and willing to act there is failure, neglect or refusal on the part of the other party or parties to appoint an arbitrator (ready and willing to act) within seven days after service of written notice of that appointment or within such extended time as the Governing Board or the President may on the application of the other party or parties allow; or
- (ii) if either of the arbitrators dies or fails or neglects or refuses to act or becomes incapable of acting as an arbitrator before an award is made by them.

### Notice and Communications How to be Served

Notices and communications to a member or non-members shall be served in any one or more or all of the following ways and any such notice or communication under (i) to (v) below shall be served at his ordinary business address and/or at his ordinary place of residence and/or at his last known address:

- (i) by delivering it by hand;
- (ii) by sending it by registered post;
- (iii) by sending it under certificate of posting;
- (iv) by sending it by express delivery post;
- (v) by sending it by telegram;
- (vi) by affixing it on the door at the last known business or residential address;
- (vii) by its oral communication to the party in the presence of a third person;
- (viii) by advertising it at least once in any daily newspaper published in Bombay;
- (ix) by a notice pasted on the notice board of the Exchange if no address be known;

### Operation of Contracts

All dealings, transactions and contracts which are subject to the Rules, Bye-laws and Regulations of the Exchange and every arbitration agreement to which the Rules, Bye-laws and Regulations of the Exchange apply shall be deemed in all respects to be subject to the Rules, Bye-laws and Regulations of the Exchange and shall be deemed to be and shall take effect as wholly made, entered into and to be performed in the City of Bombay and the parties to such dealings, transactions, contracts or agreements shall be deemed to have submitted to the jurisdiction of the Courts in Bombay for the purpose of giving effect to the provisions of the Rules, Bye-laws and Regulations of the Exchange.

## ANNEXURE 15

### Interim Report on Automation of Stock Exchanges

#### *Summary of observations and recommendations of the First Phase of the Study*

This Note presents the major observations and recommendations of a study conducted by Tata Consultancy Services (TCS) on the automation of Stock Exchanges in India. It outlines the alternatives for the use of computer and other electronic devices identified on the basis of a review of the functioning of the Stock Exchanges at Bombay, Delhi and Bangalore.

The focus of the study was on two basic aspects of the Stock Exchange operations :

1. The type of facility that should be provided to the brokers to improve their potential for trading and to expand their business.
2. The methods that should be adopted to enhance the quality of information used for control purposes by the Stock Exchange authorities and to expedite and simplify the process of settlement.

Through discussions with the Stock Exchange authorities as well as a cross-section of brokers, the Consultants collected relevant information on the functioning of the Exchanges. In addition, the Consultants, in the course of their study, observed the various processes in the Trading Ring. The Study report also covers aspects of automation and use of communication aids prevalent in some of the overseas Stock Exchanges.

Instantaneous availability of information such as fluctuations in the prices and volumes of securities traded important company announcements, economic indicators and health of the Industry is of vital importance to the brokers for efficient trading. While some Stock Exchanges in India have installed system to broadcast or display this information periodically, such systems being manual, have inherent limitation in providing timely and accurate data.

The increase in transaction volumes has resulted a large quantum of book-keeping activity in the broker's office. This adversely affects brokers' potential for productive work.

Stock Exchange authorities on the other hand, are expected to regulate the market for which they require up-to-the-minute information on the trading activities in the Trading Ring. In the case of erratic market situations, an automated warning system alongwith some diagnostic information would considerably help the authorities in their decision-making

process. At present this process has significant delays due to the manual collection of the relevant information.

The process of settlement too is dependent on the data related to transactions. It would be possible to speed up the settlement through the timely capture of the transaction data, that is, data related to the purchase and sale part of each deal.

Three alternatives for the instantaneous capture of the deal data are presented in the report of the Consultants.

In the first scheme, key boards connected to a Central Computer stationed at the Trading Posts within the Trading Ring would be used by the brokers to key-in the deal data. The number of key boards at the Trading Post would depend on the actual scrips traded at that Post. The alternative to the shared key boards is the use of Hand-held Key Pads for recording the deal data. The key pad would then substitute the "Sauda Pad" that is in use by the brokers today.

The second scheme envisages the Stock Exchange personnel collecting one copy of the deal slips filled in by the brokers. The data on these slips would be keyed in by the skilled data entry operator stationed in the Trading Ring, through the terminals connected to the Central Computer.

The third alternative requires the broker to record the deal information on terminals in his office linked to the Central Computer. This alternative is based on the current practice of the floor broker receiving instructions confirming deals in his back office over the telephone.

All the three alternatives require imposition of a stipulation that the broker should report his deal to the Stock Exchange authorities within one or two minutes of its completion. In order to decrease the volume of reporting, it may be sufficient for one of the parties to the deal, preferably the seller, to record this transaction instantaneously. In this case, the recorded sale transaction would have to be retrieved from the computer and confirmed by the buyer within a stipulated period.

In the area of instantaneous display of prices and volume fluctuations in the Trading Ring, two approaches have been suggested :

1. The Stock Exchange personnel manning the Trading Post would observe the trading, and enter price and volume information relating to a deal through the key board/Mark Sense

Card Reader into a Micro Computer controlling the display. Alternatively, the information can also be provided by a broker on a slip which could be collected periodically and the information keyed in.

2. The prices and volume information would be extracted from the deal data, which would be recorded continuously.

For the purpose of communication between Exchanges, a Star Network of Communication lines has been suggested. Initially this communication system would be used for exchange of information on price fluctuations, company news and announcements for the benefit of the broker as well as Stock Exchange authorities. However, in the long run, the Network would also be used for recording Inter-Exchange deals by the Brokers. Provisions have to be made for Computers at individual Exchanges to communicate with each other.

In the event of Inter-Exchange deals being allowed, a separate body would have to manage the settlement relating to such deals. It may be necessary to establish a National Clearing Corporation which would handle the settlement and clearing of all deals in the National Clearing Market.

Of the various technologies that are available for display of information, four technologies namely, Flat Panel Displays, Ticker Displays, TV Monitors with close circuit option and Screen projection of Visual Display Unit (VDU) contents have been considered suitable for the Stock Exchange Trading Ring Displays. The comparison of these technologies in terms of relevant parameters like indigenous availability, failure rate, power consumption, etc. is also presented in the report.

During the Committee's meeting on June 12, held at the I.D.B.I. office, Delhi, TCS presented the findings and recommendations of its study and the Committee approved the following approaches for the automation of Stock Exchanges.

- Instantaneous deal data collection by Stock Exchange personnel for immediate data entry into the Computer System through the terminals stationed in the Trading Ring.
- Use of Screen Projection of VDU contents for the continuous display of security price and volume information in the Trading Ring.
- For the purpose of communication between Exchanges, use of Star Network of Communication lines. Initially this communication system would be used for exchange of information on price fluctuations, company news and announcements, for the benefit of the brokers as well as Stock Exchange authorities. However, in the long run the network would also be used for recording Inter-Exchange deals by the brokers.

TCS has been requested to proceed with the second phase of the study which will cover the evaluation of capacities and sizing of the hardware required to implement the above approaches. This phase of the study will also provide approximate cost estimate of the hardware and software, training and the administrative changes necessary for the installation of Computerised Systems.

The Committee also requested TCS to evaluate the in house installation approach Vs. external agency (bureau service) approach.

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**ANNEXURE 16**

**INTERIM  
REPORT ON  
AUTOMATION OF  
STOCK EXCHANGES**



सत्यमेव जयते

**TATA CONSULTANCY SERVICES**

**AIR INDIA BUILDING**

**NARIMAN POINT**

**BOMBAY 400 021**

**JUNE 1985**



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## CHAPTER 1

### INTRODUCTION

#### 1.1 Background to the Study

In a developing country like India, Stock Exchanges play a vital role in mobilising public savings and accelerating investments for industrial development. Over the past few years, with the rapid industrial growth and the increased tempo of new issues for capital investment, Stock Exchanges in India have been facing problems in transacting their business quickly and efficiently.

While some Exchanges have made efforts to resolve the problems with the limited use of computers and through modifications to systems and procedures, it has become essential to review the situation on a wider perspective in order to introduce effective measures which will streamline systems, exercise control and speed up operations.

In 1984 the Government of India appointed a High Powered Committee to review the functioning of the Stock Exchanges and make comprehensive recommendations to the Government with the overall objective of improving services to the investors. Unit Trust of India requested Tata Consultancy Services (TCS) to assist the High Powered Committee in formulating its recommendations regarding the use of computers and modern electronic devices in the Stock Exchanges in India.

This interim report covers the findings and recommendations of the first phase of the study conducted in this regard.

#### 1.2 Scope and Terms and Reference

##### 1.2.1 Scope

The study undertaken by TCS was limited to the Stock Exchanges at Bombay, Delhi and Bangalore. Since the major portion of the stock trading business takes place at the Bombay Stock Exchange, the study concentrated on the functions of the Bombay Stock Exchange. It was understood that with proper standardisation of procedures, the recommendations based on the study would be applicable to all the 13 recognised Stock Exchanges in India.

The study did not cover the Book-keeping and Accounting procedures in the Brokers' Offices.

The study was planned to be carried out in two Phases. Phase I involved an examination of the present systems and procedures at the Exchanges for reporting on the possible approach to the use of modern electronic devices, in improving their functioning

Phase II will involve an in-depth analysis of the requirements for a selected approach. These requirements will cover areas like training and infrastructural needs, including hardware and software installations.

##### 1.2.2 Terms of Reference

The Terms of Reference for the Phase I Study (which is covered in this Report) are detailed below :

(a) Examine the existing systems and procedures at the major Stock Exchanges at Bombay, Delhi and Bangalore.

(b) Determine the estimated growth in the operating volumes of these Exchanges in the next 3 or 4 years, on the basis of discussions with the officials of the respective Exchanges.

(c) Recommend different feasible approaches to computerisation and use of other electronic devices that would result in :

- (i) better facilities and information for transacting Stock Exchange business (including Inter-Exchange Transactions) ;
- (ii) efficient and speedy processing of transactions;
- (iii) timely and accurate Settlements/Deliveries of traded securities;
- (iv) basic statistical information (including the Company Information) and Government reporting facilities to the Exchange authorities; and
- (v) consolidation of Management Information across the 13 Stock Exchanges so as to provide better managerial control to the Exchange authorities.

(d) Submit a report on the findings from (a) and (b) and the recommendations in (c) above.

##### 1.3 Methodology

For purposes of the study, TCS collected information through meetings with the senior officials of the Stock Exchanges at Bombay, Delhi and Bangalore. Meetings were also held with a cross-section of brokers to understand their views and concerns on the subject. In certain areas, such as the trading and settlement of securities, first hand information was collected directly by visiting the trading floors.

In addition, TCS has collected information on the working of some of the overseas Stock Exchanges where operations have been successfully automated.

It has, however, been kept in mind that any solutions, proposed for the Indian Stock Exchanges are relevant to the local context.

#### **1.4 Organisation of the Report**

This Report contains three chapters including this Introduction.

Observations on the existing systems as the Bombay Stock Exchange are outlined in Chapter 2.

Recommendations made by TCS are provided in Chapter 3 together with a Logical Flow Diagram.

There are three Appendices.



## CHAPTER 2

### OBSERVATIONS ON THE EXISTING SYSTEM

#### 2.1 General

This Chapter outlines the observations of the Consultants based on the existing systems at the Stock Exchanges studied. It covers most of the activities in the actual operation of Trading and the processes that are a direct result of the Stock Broking operation. The specific areas dealt with are :

- Trading.
- Control,
- Settlement,
- Clearing/Transfer,
- Company Information, and
- Current Level of Computerisation.

#### 2.2 Trading

The price at which the latest deal in a particular scrip has been concluded is of special interest both on the floor and in the broker's office. This information is not currently available on time. The Broadcasting System at Bombay Stock Exchange provides price information at an interval of 10 to 15 minutes. This information, according to the users, is only indicative and not accurate. Since the prices are collected from the jobbers in a verbal exchange, there is a probability of error in the price information broadcast.

At present prices of the same scrip are often found to have large variations in the various Exchanges. This, it is felt, is a direct consequence of the lack of high speed communication between Exchanges. In order to provide an equitable base for trading in the Stock Exchange, it is necessary that the inter-Exchange price fluctuations be communicated to all members quickly and accurately.

Important announcements from a company (e.g. regarding dividends, impending bonus issues) need to be disseminated among members by the Stock Exchange authorities as soon as they are received. Any other information available with the Stock Exchange which may influence trading also needs to be communicated to the members. Channels of communication for this purpose need to be formalised and implemented.

The fixing of a price for a bid or offer by the broker or a client is based on analysis of a number of factors such as price trends, company performance, economic indicators, health of the industry, etc. A data bank for such analysis is not currently available.

Brokers are concerned about the extent of book-keeping activity that they have to perform. For a typical client request, it was mentioned that a broker had to carry out approximately 27 distinct operations. The manual activity in updating registers, preparing documents for clients, Stock Exchange authorities and others has been found to be a great strain on the brokers' resources. According to brokers, it has become difficult for them to cope with the increasing demands of the paper-work involved and the expanding volume of business. Some of them have even stopped accepting new clients.

#### 2.3 Control

The Stock Exchange authorities are expected to regulate the market both on a short and long term basis. Short term control of the market requires instant feedback from the trading ring relating to price fluctuations and volume of trading.

This information is currently compiled on the basis of a day's activity and restrictions, when required, are imposed on the following day.

In order to react instantaneously to market conditions, the experience of the controlling authorities appears to be the sole basis. It is necessary to formulate specific rules to deal with abnormal situations in trading.

Margin calculations are done by the broker himself.

There is a need for monitoring the net financial position of a broker, at more frequent intervals than at present. This would help control the extent of his liability.

Deals are reported at the end of the day to the Stock Exchange by the brokers. At the Bombay Stock Exchange the estimated extent of deals not reported according to the brokers and Exchange authorities is 5 per cent and 25 per cent respectively.

## 2.4 Settlement

The settlement period has been fixed at 14 days. However, the actual process of delivering shares or receiving payment does not get completed within this period for specified shares. The delay in completion of the processes related to settlement is a matter of concern to the Stock Exchange authorities.

In the 'Specified Shares' category, the quantum of shares carried forward across settlement is of the order of 75 to 80 per cent in the Bombay and Delhi Stock Exchanges.

The institution of carrying forward--'Badla' is being utilised by traders to indulge in forward trading. This has given rise to the institution of 'Badla' brokers. It may be necessary to control Badla by monitoring the number of settlement cycles through which deals are carried forward and by imposing restrictions.

## 2.5 Clearing and Transfer

The Clearing House today appears to function merely as a Post Office. Scrutiny of documents for which the Clearing House is responsible does not seem to be performed adequately.

Exchange of shares which are turned in by the brokers as security for margin is time-consuming at Bombay (takes about 5 days, on the average).

The transfer process has been mentioned as tedious and time consuming. The mechanics of the process are a dissuading factor to the small investors' interest in the Stock Exchange.

## 2.6 Company Information

The Stock Exchange Directory prepared by the Bombay Stock Exchange is the only consolidated source of company information available to brokers and investors. This Directory is prepared on the basis of annual reports. Need for more frequent updates of the company information on a quarterly or half-yearly basis has been felt. The Bangalore Stock Exchange publishes a quarterly journal "Investment Focus" targetted to Stock Market observers and small investors.

## 2.7 The Current Level of Computerisation

The following was observed regarding the current level of computerisation at Bombay :

1. A batch processing system for settlement of transactions on the Exchange is presently operational. The processing for the three classifications of securities is done separately.

Input sheets (Souda sheets) to the system are filled in manually by the brokers involved in a deal and then entered into the system by Direct Data Entry (DDE) devices at the EDP Centre.

The inputs submitted by the two brokers (the buyer and the seller) in each deal are matched and any discrepancies/missing inputs notified to the concerned brokers. The process of reporting and correction to eliminate errors can take 2 to 3 days (the correction advice has to be confirmed by both parties). This procedure is time consuming and cumbersome.

2. In addition to the above-mentioned daily inputs for the specified group of shares, an input sheet (Form 6A/7A) which specifies their receive/deliver position exclusive of carry forward (badla) deals in each security, is submitted on the day following the settlement day.

These inputs which correspond to the receive/deliver position of each dealer are used for the settlement. Often this procedure gives rise to situations in which some brokers are left to receive securities without anyone having to deliver them and vice versa. To cater to such situations an 'Auction Account' is maintained by the Stock Exchange. The Exchange buys the concerned securities at the 'making up' prices. It has been found that in almost all such situations, the Stock Exchange incurs losses.

3. For specified shares another input sheet (Form 19A) consisting of the net amounts to receive/deliver is submitted by the brokers for purposes of settlement. Matching and subsequent corrections are performed on these inputs before these are used for settlement.

4. It follows from the above that multiple inputs (6-A, 7-A, and then 19-A) are time consuming for the brokers to fill in, for data-entry and for matching and subsequent corrections. This also gives rise to delays in the data entry of daily deals around the dates when the other inputs (6A, 7A and 19A) are submitted. It may be noted that the EDP Department has data entry operations going on round the

clock in three shifts. Stock Exchange authorities are aware of these lacunae in the system.

5. There is scope for improvement in the Communication Facilities between brokers having offices in the Exchange building. At present no intercom facility is available, and brokers have to communicate through external telephone lines.



**RECOMMENDATIONS****3.1 General**

This Chapter provides approaches to solutions which can help alleviate some of the problems of information flow and control in the Stock Exchange. The logical information flow diagram of the existing system for stock broking operations is discussed. The areas which merit automation are then identified. Alternatives for automation in these areas are presented. The impact of each alternative on the working of the Stock Exchange is then discussed.

The factors mentioned below must be taken into account, as these are vital for the implementation of a successfully run computerised system :

- (a) Any system which is introduced should try to maintain some amount of similarity with the existing trading methodology. This would facilitate transition.
- (b) The system should be consistent and fair to all members. The equipment chosen should therefore be reliable enough to provide uninterrupted service.
- (c) The system should be able to handle the current transaction load efficiently : Peak loads and other exceptional situations should be taken care of.
- (d) The system should also cater to the anticipated growth in transaction volumes and number of members, additional listings and should be able to adapt to future technological advances.

**3.2 Logical Data Flow Diagram**

Information flow diagram for the Stock Exchange operations is shown in Figure A. An information diagram consists of four items, namely processes, entities, information stores (files) and information flow. Each component is described in the following paragraphs.

**3.2.1 Process**

A process is denoted by the symbol depicted on the right and represents actions performed by people or machines (e.g. Match Deals, Analyse Trends). The number in the symbol stands for the process number. In case a process requires several steps, a brief description of these steps is provided in an accompanying Exhibit.



### 3.2.2 Entity

An entity is external to the Group or Department for which the diagram is prepared. It is a person, organisation or process with whom the Information System interacts, e.g. a Broker.



### 3.2.3 Information Store

An information store depicts the storage of information for future use, for example, Matched Deals.

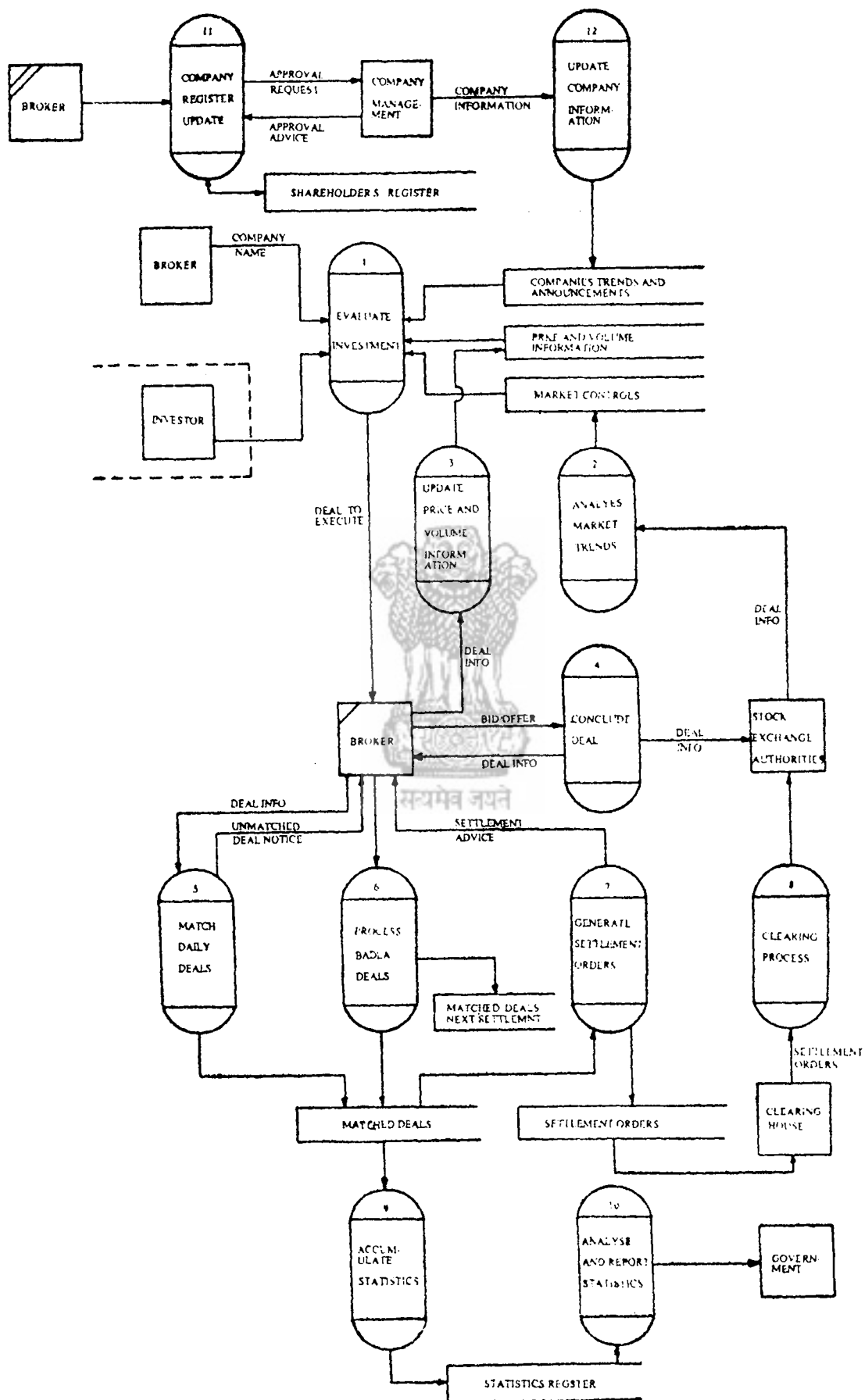


### 3.2.4 Information Flow

Information flows are shown by the lines which link up the preceding three items. These lines denote the movement of information described in the direction indicated (by an arrow).







## PROCESSES IN THE STOCKBROKING OPERATIONS

### 1. Evaluate Investment

For the company whose shares are sought to be bought/sold, evaluate the deal on the basis of :

- (a) Company information and trends such as market capitalisation, company performances and plans etc.
- (b) Share price information and trend, volume transacted during the day so far.
- (c) Market controls in the Stock Exchange for shares of the said company.

### 2. Analyse Market Trends

Based on :

- (a) Existing market controls ;
- (b) The deal information, individually and cumulatively (The deal information consists of the Buyer, Seller, Scrip, Rate and the Volume),

analyse market trends and update (set/reset) the market controls.

### 3. Update Price and Volume Information

Update the Price/Volume Information for evaluation of deals, with the Price and Volume components of the latest deal information.

### 4. Conclude Deal

1. Match the bids/offers.
2. When the asking price matches the bid, execute the transaction.
3. Generate the deal information.

### 5. Match Daily Deals

1. On the basis of the deal information ensure that:
  - (a) both the components (Transactions) of a deal have been reported by the two contracting brokers, by matching the buying and selling brokers and the scrip.
  - (b) the following information matches
    - (i) Rate
    - (ii) Volume.

2. Accumulate the matched deals in the Matched Deals Register.

3. Generate unmatched deal notice for the brokers, if the condition in 1 is not met.

### 6. Process Badla Deals

1. For the Badla deals—match these as is done for the daily deals in Process 5, Step 1.

2. Adjust the accumulated deals in the Matched Deals Register for the concerned brokers depending on the type of Badla Deal.

3. Create a record in the Matched Deals Register—Next Settlement. This record reflects the Volume in the scrip involved in the Badla deal for the broker, at the 'making up' price.

### 7. Generate Settlement Orders

After a Settlement Period is over, generate:

- (a) a settlement order for each broker, containing his net position in each scrip.
- (b) a statement of differences for each broker, containing his position in terms of money at the end of the settlement period.

### 9. Accumulate Statistics

At the end of each settlement period, process the information in the Matched Deals Register to accumulate statistics such as the following :

- Number of Deals in this settlement,
- Share Turnover in number,
- Share Turnover in terms of money, and
- Industrywise trend and turnover.

### 10. Analyse and Report Statistics

Based on the information generated in Process 9, analyse trends in the stock market for the Government purposes on an historical basis, for a period.

### 11. Company Register Update

1. Check that the transfer form is properly filled
2. Search the Company Shareholders' Register for the seller's name and signature matching.
3. Request the company management's approval for transfer of shares depending upon the criteria laid down for this purpose.
4. On approval of the transfer, change the seller's name to the buyer's name in the Company Shareholders' Register.

### 12. Update Company Information

On receipt of the Company Information such as annual report, announcement of bonus rights issue, etc. update the Company Trends and Announcement Register. This information is used in evaluating investments in Process 1.

### 3.3 Identification of Areas for Computerisation

A perusal of the Observations presented in Chapter 2 suggests some possible areas for automation in the stockbroking operations. Apart from the usual data processing functions, this automation should attempt to provide solutions to the problems of the brokers and Stock Exchange authorities.

Two significant areas which are candidates for automation and/or use of electronic devices for smoother information flow in the Stock Exchange are:

- (a) Provision of timely and accurate information to aid the decision-making for buy/sell by the broker.
- (b) Provision of adequate, fast and accurate information to the Stock Exchange authorities to control the market operations on an instantaneous basis.

In addition, the work needed to be done by the brokers/Stock Exchange authorities to record and process the deals information for a settlement period requires to be simplified.

An examination of the information requirements for these areas and the information flows shown in Figure A indicates that the deal information or its derivative is the crucial input for time-critical processes.

It is therefore necessary that deal information be available as soon as possible after a deal is concluded, to hasten these time-critical processes. If the total information about all the deals is available, accurate inputs for deal evaluation analysis by the brokers and the market trend analysis by the Stock Exchange authorities can be provided. A procedure which can satisfy the requirement of providing this information has to be devised. In addition, the appropriate equipment to communicate information to the Stock Exchange authorities by the brokers has to be determined.

### 3.4 Alternative Approaches to Automation

The following sub-section present and discuss the alternative approaches to automation at the level of Local Stock Exchange.

#### 3.4.1 Information Display

Trading Information has to be displayed in the Trading ring and made available to brokers in their back offices.

The information of interest that could be displayed consists of Security Name, Opening Price, the day's High and Low prices and the Price of the last transaction. Securities would have to be displayed in batches of 15 to 20. About 200 securities which are actively traded would have to be displayed. Heavily traded securities would have a higher frequency of display.

##### (a) Type of Display

Of the various technologies that are available for public display of information, the following are considered suitable for the Stock Exchange Trading ring situation :

- (i) **FLAT PANEL DISPLAYS** : Using Light Emitting Diodes ; or Liquid Crystal Displays ; or Plasma Modules.
- (ii) **Ticker Tape (Moving Information) Displays.**
- (iii) **TV Monitors with CCTV option.**
- (iv) **Screen Projection of VDU Contents.**

Table 3.1 gives a comparison of the technologies in terms of relevant parameters.

TABLE 3.1

Comparison of Technologies in Terms of Relevant Parameters

| Factor                             | Flat Panel Displays | Ticker Tape Displays | VDU's          | Video Screen Projections |
|------------------------------------|---------------------|----------------------|----------------|--------------------------|
| 1. Size of Display per Character   | 25 mm to 300 mm     | 225 mm               | 12 mm to 25 mm | 36 mm to 75 mm           |
| 2. Resolution                      | Highest             | Very Good            | Good           | Good                     |
| 3. Protection from Ambient Light   | Not Required        | Not Required         | Not Required   | Required                 |
| 4. Implementation                  | Not Easy            | Not Easy             | Easy           | Very Easy                |
| 5. Input Thru Keyboard or Computer | Possible            | Possible             | Possible       | Possible                 |
| 6. Flexibility of Display Contents | Low                 | Low                  | Good           | Good                     |
| 7. Indigenous Availability         | Available           | Available            | Available      | Not Readily Available    |
| 8. Failure Rate                    | High                | High                 | Low            | Negligible               |
| 9. Maintenance Effort              | High                | High                 | Low            | Low                      |
| 10. Power Consumption              | High                | High                 | Low            | Lowest                   |
| 11. Graphic Displays               | Not Possible        | Not Possible         | Possible       | Possible                 |
| 12. Scrolling of Display           | Not Easy            | Not Easy             | Easy           | Easy                     |
| 13. Number Required                | Few                 | Few                  | Many           | Many                     |

For the display of information at the broker's office and at other locations outside the trading ring, VDU terminals would provide the best medium due to their versatility. It is expected that such a VDU facility would be utilised by brokers for accessing Company Information, Company Announcements and other inputs for analysis in addition to price fluctuations.

A variety of services can be provided on the VDUs such as :

- (i) Information about fluctuation in share prices.
- (ii) Announcements from listed companies.
- (iii) Display of an index such as the Economic Times Stock Market Index to provide an overview of market performance.
- (iv) Market Control Information like Margins, Stock Exchange Announcements, Settlement Information.
- (v) Financial Statistics similar to the Dow Jones News Retrieval in the US.

A teletext system would cater to all such requirements. Teletext refers to system for the widespread dissemination of textual and graphic information by wholly electronic means, for display on low-cost terminals (often suitably equipped television receivers), under the selective control of the recipient, and using control procedures easily understood by untrained users. It is one way service in which an entire library of information is transmitted and the receiver selects the required page information for display on the screen. Such systems have been implemented in most of the Stock Exchanges abroad. Details of the system would have to be worked out based on the quantum and the type of information that is to be communicated.

#### (b) *Methods for Obtaining Information for Displays*

The conclusion of the deal and the collection of data for display of Price fluctuations have to occur simultaneously. A scheme for this purpose needs to be worked out.

#### *Alternative 1 : Stock Exchange Officials Perform Data Entry*

A Stock Exchange official enters the price and volume information into an input device. There are three options which are described below :

- (i) At each Trading Post, depending on the intensity of Trading, one or more Stock Exchange officials would be stationed. These observers would track the deals visually and enter the data through a keypad. Though the method would be initially prone to error, it is expected that with experience the observer would be able to record every deal quickly and accurately. It may be necessary to process the data entered by the observer before displaying.
- (ii) Instead of keypads, the observer could use a Mark Card on which the details corresponding to the deal could be marked. A Mark Card Reader would then provide the inputs to the microprocessor driving the display.
- (iii) The broker could be asked to provide the price and volume information through a deal slip which is collected periodically and keyed in. This method is followed in some Monetary Exchanges. However, the delays in collection and keying in may adversely affect the requirement of instant display.

#### *Alternative 2 : Data from Deal Information*

In this case the data for price and volume display is taken from the deal information that is entered simultaneously with the conclusion of a deal.

Methods of deal data acquisition are discussed later in this chapter.

### **3.4.2 Inter-Exchange Information Transfer**

There is a strong need for a display system according to which quotations of all important shares in various stock markets around the country are available simultaneously in any particular market.

The information that needs to be exchanged is basically related to price fluctuations. The inputs for local display can be used for Inter-Exchange Communication also.

The Information from the Exchanges has to be transmitted periodically to the other Exchange. Two kinds of networks are possible for such communication, the Ring and the Star. In an ideal situation, communication between the Exchanges would be continuous. A Star network such as the one shown in Figure B would therefore be necessary. Informa-

non transfer could be done using the Data Circuits provided by the P&T department.

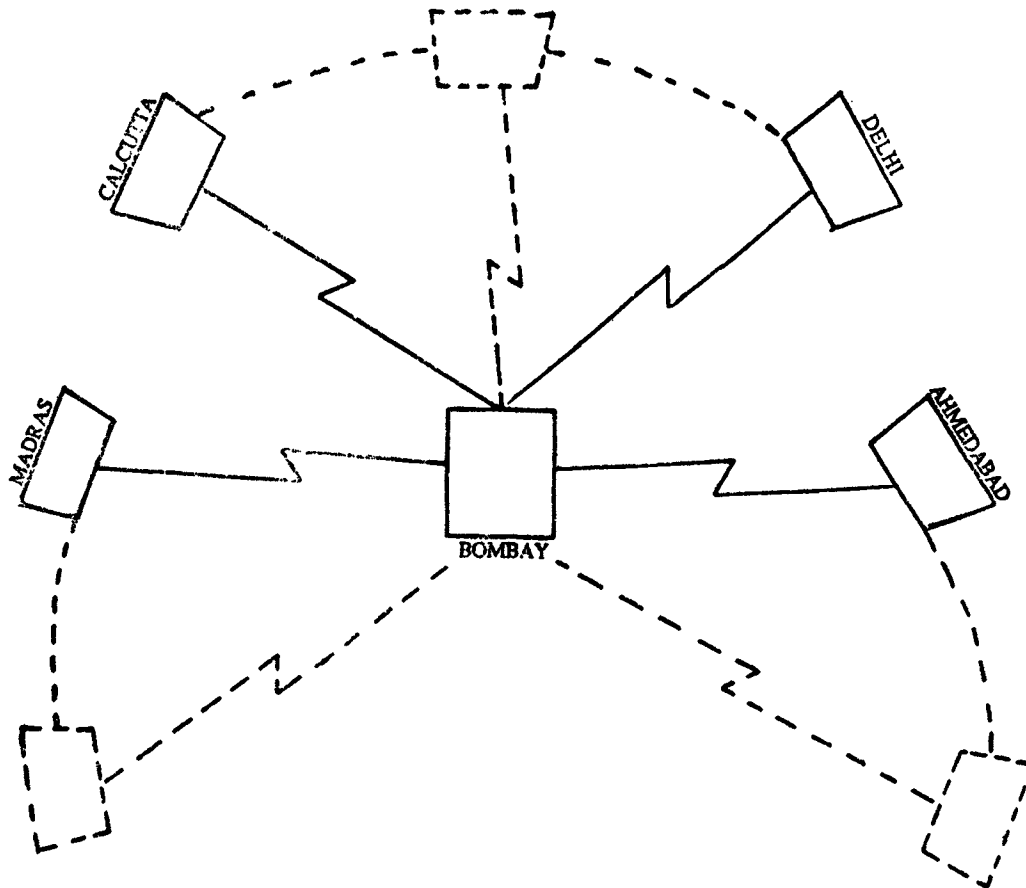


Fig. B

Initially it may be necessary to link the highly active Exchanges like Bombay, Madras, Calcutta and Delhi.

### 3.4.3 Deal Data Acquisition

A deal concluded by two brokers is reported to the Stock Exchange as two transactions, one each by the buyer and the seller. Each transaction contains the Security Code, Buyer Code, Seller Code, Rate and the Number of Shares. As discussed earlier, it is necessary, both from the point of view of control and information dispersal that the transaction details be recorded instantaneously. Approximately 20000 to 30000 transactions are completed during the Trading hours at Bombay Stock Exchange. These correspond to 10000 to 15000 deals. In view of the limited time available for Trading, the time spent in recording the deal should be reduced.

Of the two transactions that make up the deal, it would be sufficient for the purposes mentioned above to record just one during the Trading hours. Thus the seller, for instance, can be asked to record his transaction. However for the purpose of settlement, the buyer would then be required to confirm the deal through the other transaction later. In a VDU-based system this confirmation can be simplified by recalling the Sale Transactions on the VDU and verifying them.

A stipulation that deal information should be entered within a minute or two of deal completion should be set. Such stipulations are prevalent in most major Stock Exchanges abroad.

#### *Alternative 1 Use of Keypads and Keyboards*

Trading is conducted in a single scrip or a group of scrips in specific areas of the Trading ring. These areas form Trading Posts. A keyboard like that of a Typewriter with a single line display for verification of the input can be used to enter a transaction. One or many such keyboards can be placed at each Trading Post to enable a broker to enter transaction data quickly.

A further refinement in this procedure would be the provision of a hand-held compact keyboard, the size of a calculator, for each broker. The keyboard would then act a substitute for the writing pad that the broker now uses. These keyboard or keypads would have to communicate with a computer to store and process the transactions.

To reduce the number of characters that a broker has to key in, a keyboard can have some of the data pre-programmed. Thus, for example, in a general purpose keyboard at the Trading Post, the scrip code can be pre-set. Any transaction entered through such a keyboard would not require the

scrip code to be keyed in. In the case of hand-held keypads, both scrip code and seller code can be pre-programmed.

*Alternative 2 : Collecting Data from the Brokers by Stock Exchange Officials*

Data entry of Seller Transactions can be done through terminals stationed in the Trading Post. These would be operated by skilled operators having a high keying speed. The data has to be provided to them in coded form. In this case a broker will fill in the details of his transaction on a perforated duplicating pad. One copy would be torn and passed on to the data entry operators. These slips can be collected by either of the following methods :

- (a) The slips can be passed on to the data entry area through chutes, a practice that was followed about 15 years ago in the New York Stock Exchange.
- (b) Stock Exchange personnel can go around the Trading ring, collecting the slips from collection boxes kept at the Trading Posts.

Under this scheme, it has been estimated that delays of the order of 5 to 10 minutes would be introduced due to the collection and keying in procedures. Assuming a uniform distribution of transactions during Trading hours and a collection every 5 minutes, 20 terminals would be required to key-in all the transaction data.

*Alternative 3 : VDU-based Data Entry*

At present a broker on the floor receives orders to buy or sell from his back office and after completing the transaction, informs the back office. This fact is made use of in the formulation of this alternative. It envisages the use of terminals in the offices of the brokers. On intimation from the floor, the broker's office would be expected to key in the information immediately.

This alternative implies a need for a terminal for each broker. This may not be economically feasible for the small brokers. Shared terminals can be considered for this class of brokers.

It is also possible for a broker to operate alone and not have back office personnel to enter the deal. It would then be necessary to provide terminals within the Trading ring.

**General Observations Pertaining to these Alternatives**

All three alternatives involve a radical departure from the current practices followed in the Stock Exchange. As against 5 seconds that are taken for scribbling the transaction today, about 15 to 20 seconds would have to be spent in coding the data for keying in or in entering the data. This increase in time would represent the most serious factor against acceptance of these solutions.

Alternative 2 involves four physical processes—Coding and tearing out of slips by the broker and collection and distribution to data entry operators

by the Stock Exchange personnel. These processes and the need for co-ordination can introduce delays in addition to those caused by data entry. An increase in the volume of transactions, which is also anticipated, would result in further delays, unless there is a corresponding increase in the number of Stock Exchange personnel and the data entry operators for the job. The inherent potential for error in this process which consists of a chain of manual sub-processes is high.

Alternative 1 in the case of keyboard at Trading Posts could give rise to queues during times of increased activity. The environment which exists in the Trading ring would also hinder access to a common keyboard. The technology for linking hand-held keypads to a Central Computer System is in its early stages of development and is yet to be proven.

Alternative 3 is modelled closely on the current practice. The communication process to the back office serves as the source for recording deal data. The provision of terminals also makes it easy to introduce systems for dissemination of relevant information. In other words the terminal at the back office can be used for two purposes—

- (a) To provide the deal data to the Stock, Exchange.
- (b) To access a variety of information which would assist the broker in analysis and decision making for deals.

However, the number of terminals required may be of the order of 300, and a large computer system would be required to support such a network.

Any system that is introduced should be consistent and fair to all members. The hardware chosen should therefore be reliable enough to provide uninterrupted service. The hardware includes the terminals, the communication lines, the Central Computer System and the associated power supplies.

It may be mentioned here that in Alternatives 1 and 3, the accuracy of the recorded data would be greater since the brokers themselves would be entering it.

**3.5 Impact of the Proposed System on the Working of the Stock Exchange**

The impact of the proposed system—which involves changes in the existing system—is outlined below :—

- (a) Assuming that terminals are used by the selling broker to enter deal data during Trading hours, the confirmation of the deal by the buyer within a certain time during the day will obviate the necessity of matching transactions as is currently being done. The selling broker's unconfirmed transactions will be available to him faster for follow up. The buying broker would also have an option of entering his transaction in cases where the seller's transaction has been recorded erroneously or, not recorded

at all. Only confirmed deals should be taken up for settlement. The reduction in the correction cycles for input data would ensure speedy processing of all transactions and timely and accurate settlements.

- (b) The broker would, in addition, be able to get his net position in each security or in total at any point in time. This would again help him in making decisions in keeping with his capacity to buy or sell.
- (c) Data can be downloaded from the Central Computer System to a local computer

workstation in the broker's office. This data can be used for the broker's book-keeping and other back office activities. The manual effort to update registers, books and ledgers, which is considerable today, would come down because of the 'Single Sourcing' of the deal data.

- (d) The availability of all the Trading data will facilitate the preparation of necessary reports for both the Stock Exchange and the Government. These reports can be prepared faster and with accuracy.



## APPENDIX A

### PROCESSING VOLUME AND PROJECTIONS VOLUME OF TRANSACTIONS

| Exchange            | Present        | Projected Growth Rate per year for the Next 4 Years |
|---------------------|----------------|-----------------------------------------------------|
| Bombay . . . . .    | 20000 to 30000 | 15%                                                 |
| Delhi . . . . .     | 5000 to 7000   | 25%                                                 |
| Bangalore . . . . . | 1000           | 60% to 80%                                          |





## APPENDIX B

### OVERSEAS STOCK EXCHANGES

This appendix presents the salient features of selected overseas Exchanges with reference to the areas in which automation has been introduced.

Following Stock Exchanges are described :

1. London
2. New York
3. Hong Kong
4. Cincinnati

#### B.1 London Stock Exchange

The computer services offered to the stockbrokers in the London Stock Exchange can be divided into those provided by the Stock Exchange itself, and those provided by computer services firms. Those offered by the Stock Exchange itself are concerned with supplying Stock Exchange members with current price details and coordinating bargains.

Price details are also offered to a wider commercial public by companies like Reuters and Datastream on a commercial basis.

About 12 years ago, the Stock Exchange began to offer trading details to brokers within the city of London using 'cable' TV system. The system known as MPDS (Market Price Display System) involved 22 channels, on each of which a different page of information was displayed and it could carry details of change in prices within 30 seconds of the change occurring.

The MPDS has now been replaced by a teletext service known as TOPIC (Teletext Output Price Information Computer). Receivers—in the form of modified TV sets—can be installed wherever there is a telephone receiver providing a service with a potential worldwide user base.

The information which TOPIC carries is collected on the floor of the Stock Exchange itself. Announcements from listed companies are also available through TOPIC.

The price movements of the various market sectors are shown graphically and a display of the Financial Times 30—share index is also provided. In all, 12,000 pages of information are provided through TOPIC—1500 to the general public and 10,500 to Stock Exchange members which number 4100 only.

The Stock Market also offers a service called TALISMAN which stands for Transfer Accounting

and Lodgement for Investors, Stock Management for jobbers, and processes the paperwork of brokers to reconcile deals and provide details of settlements. Around 15000 deals are processed by TALISMAN every day with peaks of over 30,000. The number of securities is about 7,200 covering nearly every type of business activity.

TALISMAN keeps track of shares passing through the settlement process. Listed securities sold through TALISMAN are initially transferred to a nominee company of the Stock Exchange (Sepon Ltd.) and subsequently cleared so that the buyers and sellers are credited with their appropriate holdings.

The larger member firms and registrars have their own computers, and supply and receive information directly from the Stock Exchange using magnetic tape.

The smaller firms using TALISMAN fall into two categories : those who use own computer terminals to supply data to the Stock Exchange and those firms which use computer bureaux to supply the information to the Stock Exchange.

TALISMAN is a 'batch' system, that is, information is saved up and processed in bulk at the end of the trading day. Details of deals supplied by individual companies using their own terminals are saved, and merged with the data supplied on magnetic tape when the 'batch' is run.

To avoid disruption of work and keeping in mind the volume handled by the TALISMAN System and its vital importance to the UK's economics, the computer configuration used for TALISMAN has been reproduced elsewhere, and the entire TALISMAN system is run periodically at this site to ensure that the backup system is absolutely reliable.

Two new rules are being introduced to protect the investor; these will become the basis of trading after 1986. The keystone of this protection will be the Best Execution rule which requires that a broker should get the best deal available for the client.

Another new rule, the Last Trade Reporting rule, will require one of the two firms involved in a deal to report the trade to the Stock Exchange within a minute or two of the execution. It is envisaged that Last Trade information will be sent from a stock-broking firm's office at the conclusion of the deal.

In the area of transfer of shares, to eliminate the usual cumbersome process, the Stock Exchange plans to computerise it by replacing paper certificates with computerised records. This will require a change in the law apart from the concurrence of everyone concerned with shareholding.

In the longer term a move seems likely away from the market floor, to telephone dealing and ultimately to screen-based dealing.

## B.2 New York Stock Exchange

The Exchange occupies a predominant position among Stock Exchanges in the world. It handles a very large portion of the world's total equities market. The daily volume of transactions is approximately 160,000.

The Stock Exchange has been through many stages of automation and has incorporated advances in technology in the fields of communications and Data Processing.

Trading Posts have been established in the Trading ring. Floor brokers transact deals at the Trading Post based on advices from their offices. Stock Exchange personnel stationed at Trading Posts relay the deal information to more than 12,000 tickers and display devices all over the United States. Independent agencies like Teletype, Quotron, Reuters, etc. also provide continuous price fluctuation data to investors and portfolio managers. TV monitors and VDUs located at multiple locations on the Stock Exchange floor also provide information necessary for Trading.

Transactions that are completed are reported by the brokers from their back offices to the Central Computer System almost instantaneously. A feature of this system is its fail-safe nature of operation. A Tandem non-stop computer caters to this requirement. The transaction data is utilised by the Exchange to monitor operations on a continuous basis. Situations demanding intervention are spotted quickly by the computer and Stock Exchange officials take corrective action without any delay.

The critical functions of settlement and clearing are handled by the National Securities Clearing Corporation (NSCC), a company promoted by the New York Stock Exchange (NYSE) and the American Stock Exchange. The main functions carried out by the NSCC are comparison, clearance, delivery settlement and related services for stocks and corporate bonds bought and sold on the Stock Exchange. It also complements and supports the regulatory work of the New York Stock Exchange, by continuously reviewing the liability positions of members. Membership fees and deposits from members guarantee the financial settlement of every transaction. A separate settlement service processes physical deliveries among participants.

With technology providing improved communication facilities and enhanced processing speeds, there is a strong tendency for New York Stock market institutions such as Regulatory Agencies, Clearing Corporations, etc. to share data and techniques to create an efficient share market. For example, NYSE belongs to the computerized Intermarket Trading System (ITS), which links seven major Stock Exchanges and the over-the-counter (OTC) dealers.

## B.3 Hong Kong Stock Exchange

There are four Stock Exchanges in Hong Kong. These would be soon housed under one roof to constitute a unified Stock Exchange. This appendix describes the way these existing Stock Exchanges work and the proposed way of operation in the unified Stock Exchange.

The existing Exchanges have broker booths having TV Monitors and telephone sets. There are mobile floor traders who trade with the help of wallboard counters (boards) one for each scrip. The boards have an area for bids and offers and another area for recording deals which have been transacted. Using the TV monitor installed in the booth, the broker can view some particular boards' activities. The TV monitor is an information display device only.

All transactions are carried out face to face on the floor at the board. The number of shares and price **concluded are immediately recorded manually on the** lower part of the board. Broker's actions are recorded by the closed-circuit TV system.

After a sale is agreed between brokers the seller fills out a contract slip (having deal details) in triplicate for the buyer to confirm by initial. One copy is sent to the Exchange and each broker keeps one copy for his records.

The unified Stock Exchange plans to automate many of its functions and will initially cover the computerisation of bids/offers recording by the input and storage of buy and sell bids/offers in the computer system. The computerisation will also cover the trade recording by the input and storage of 'sale' transactions in the computer system.

The current trading boards will be replaced by an inquiry system using 'teletext' technology to quickly disseminate trading information (including the bids offers status information). This information will be displayed on the screen located at the broker's desk.

The system will also provide reports including broker's purchase and sales journal—settlement reporting system—using the transaction information input into the system.

In the system envisaged, a floor trader should have little requirement to leave his booth under normal trading conditions, as business will be conducted on the internal telephone system complemented by the computerised trading support system. There will be a provision to record all telephone conversations for reference in the event of any dispute arising.

For nearby brokers transactions may be carried out face to face rather than over the phone. In this case a triplicate transaction slip must be completed.

In addition to the information display via 'teletext', four large display boards are planned which will show 20 most recent transactions recorded in the system giving name, price and volume details.

The computer system is centred upon a Tandem Nonstop computer. The computer and the associated

software are built to a fault-tolerant design. In other words, the design avoids the possibility of a complete system failure occurring because of failure at a single point.

The Hong Kong Stock Exchange is looking at possible development of an automated clearing system and integrated data network providing services direct to member firms' own computer systems and to external agencies in Hong Kong and elsewhere, much on the lines of the London Stock Exchange.

#### B.4 Cincinnati Stock Exchange

The Cincinnati Stock Exchange is one of the few Stock Exchanges around the world which have automated the trading operations completely.

The Cincinnati Stock Exchange system, called the National Securities Trading System (NSTS), offers an automated trading market. The brokers enter their

bids and offers through terminals located in their offices. When an asking price and bid are equal, the system automatically executes a deal on a time priority basis. In other words, the first broker to bid a price gets the deal. According to officials connected with the system, this arrangement makes the system more equitable to the small brokerage firms.

It is also mentioned that NSTS is easy to use because the broker firms do not have to place dealers on the trading floor. Actually little of the Cincinnati Stock Exchange is in Cincinnati. Administrative offices and what remains of the physical auction floor are all that are located there. The computer system is located in New Jersey and the brokers are located in various parts of the U.S.

Since NSTS began operation in 1978, the Securities Exchange Commission (SEC) in the U.S. considered it an experimental project. The system was granted a 'permanency' status in December, 1982.



## APPENDIX C

### Salient Features of Indian Stock Exchanges

#### C.1 Delhi Stock Exchange

The Delhi Stock Exchange, established in 1947, is one of the major Stock Exchanges in India. There are around 110 members of the Stock Exchange and approximately 950 scrips listed. Approximately 100 members have offices in the Stock Exchange building itself.

The brokers carry out their trade face to face in a rectangular (25' x 40') ring. Around 50 telephone sets have been provided in the trading hall for the purpose of communication between the back office and dealers on the floor. There are about 150 to 200 people on the floor at a given time. Although there are marked places on the floor to enable the concept of Trading Posts, people just congregate and shout. The transactions are recorded on a standard pad by both the brokers concerned with a deal.

There are four display boards for giving the rate information on the floor. These boards are updated manually by a Stock Exchange official. This rate information is given by the brokers after transacting a deal the rate for which is different from the current rate. It is generally felt that not all variations are recorded because of the queue which develops around the person noting these variations.

As regards reporting of deals, only those belonging to the scrips in the specified category are reported. Currently, there are about 32 scrips in the specified category. The rates information in the deal is not reported for these deals.

The matching of the deal transactions and the subsequent settlement and clearing processes are done manually. The inputs from the broker for these processes have the same form as those in Bombay.

Deals in unspecified shares are not reported. The settlement and the clearing of shares in the category are done by the brokers themselves, though there is an option for them to go through the Clearing House for this type of shares also.

The Stock Exchange authorities apply controls on the market at the end of the day. These are based on their experience and judgement of the market. The control include fixing margins and suspension of trading.

Automation was introduced some time back for processing of the deals in specified shares but due to various problems such as non-receipt of data from broker by a fixed time the automated system was discontinued and the working reverted back to the manual system.

There is consensus both amongst the Stock Exchange officials and the brokers that provision of the latest rate information prevalent both locally and nationwide would be beneficial to the Stock Exchange business in making it both efficient, fair and broad-based.

#### C.2 Bangalore Stock Exchange

The Bangalore Stock Exchange has been in existence for the last 25 years. Recently it has been granted recognition as a permanent Stock Exchange by the Government of India. Over 200 companies are listed in the Bangalore Stock Exchange.

The functioning of the Stock Exchange in the various areas of study is detailed below.

##### Trading

Trading in securities is carried out both on the Trading floor and in the offices via Telephone. About 90 per cent of the trading is done in the back offices at all times. Floor trading hours are from 12 noon to 3 p.m. Floor trading starts at 1.00 p.m. after the first report on prices in Bombay is received via teleprinter. Communication between brokers is, by and large, in English.

All deals that are concluded on the floor are noted both by the seller and buyer on a Memo of confirmation which is filled in duplicate confirmation by signature is done by both buyer and seller during or just after Trading hours and one copy of each member's memo is handed over to the Stock Exchange. This document forms the basis for dispute resolution if required.

The Trading Hall occupies about 800 sq. meters and has booths arranged along the side for each broker. All the Trading is done across a table in the centre of the hall. No Trading Posts are established. The teleprinter providing Bombay and Madras rates is situated in one corner of the hall. Two blackboards at one end of the hall are used to record the rates at which deals for particular securities have been concluded. A Stock Exchange official present in the Trading ring picks up the information for updating the board either by listening to members or from the members themselves. About 20 to 30 members are present in the ring during trading. The number of deals concluded in the trading ring varied from 40 to 100 per day.

Trading is permitted in a security listed in any of the recognised Stock Exchanges. Securities which are not listed in Bangalore but traded are classified as

**Permitted Securities.** There is no classification of securities into specified and unspecified categories. All deals are on a cash basis and have to be settled in one week's time.

#### *Volume of Transactions*

About 1000 deals are concluded daily. A majority of these are for Permitted Securities. The money turnover for these deals is of the order of Rs. 50 lakhs. In addition to these deals, brokers, in the interest of their clients, make deals with their counterparts in Bombay and Madras. These deals are not reported to the local Stock Exchange.

The volume of business has grown at least four-fold since January and this pace of growth is expected to continue.

#### *Information Dissemination during Trading*

Local price fluctuations are recorded instantaneously on the display black-board. A similar black-board has been placed outside the Exchange for the benefit of investors. This is also updated periodically by Stock Exchange Personnel. There is a plan to replace the black-boards at both locations with TV monitors.

Information from Bombay and Madras is available by teleprinter through PTI. The targeted frequency of the updates is, 50 minutes, starting at 15.15 p.m. However, actual updates are available only once per day, due to communication problems.

Company information and announcements which have a significant bearing on prices are available only through the letters sent by companies to the Stock Exchange.

#### *Control*

The Bangalore Stock Exchange operates, by and large, on a self-regulatory basis. Control measures as practised in other Stock Exchanges are conspicuous by their absence.

A formalized method of carry-forward of deals does not exist. This would imply delivery on a weekly basis for all transactions and squaring up of the financial positions on a weekly basis, instances of settlements being carried forward for periods upto a few years are numerous.

Being a small Exchange with only 40 members, control is exercised on an individual basis with the control activity taking the form of restrictions, warnings or penalties imposed in individual cases. Control action in some cases appears to be subjective.

#### *Settlement*

The settlement period is fixed at seven days. Based on the deals during the previous week, the broker work out the details of delivery and receipt of shares with each other. The actual delivery and receipt of share certificates is effected individually by the brokers themselves.

The financial details of the deals concluded during the week get reported in the statement of account and the consolidated statement of account submitted by each broker. The Stock Exchange personnel verify the entries in the consolidated statements and confirm the monetary position of each broker. In the case of a net liability position, one cheque is issued by a broker in favour of the clearing bank. In the case of a net receive position, a broker receives payment from the clearing bank.

सत्यमेव जयते

## ANNEXURE 17

### A Special Note By Dr. L. C. Gupta

#### 12.1 Introduction

1.1 This note deals with certain aspects of the over-all structure of the securities trading mechanism needed in India. The structures vary widely among countries, being influenced by historical reasons and also by special circumstances, such as geographic size and the pattern of industrial development. A common feature in all countries is the strong trend in recent years towards linking up the various components of the securities trading mechanism into a unified national market system, taking advantage of the emerging revolution in communication technology. In this context and taking into account the deficiencies of our own securities trading mechanism, we need to bring about some structural changes which are discussed in this note, as they have not been covered by the Committee or the Committee has not, in my opinion, gone far enough to recommend changes in the present structure.

1.2 It may be mentioned in passing that the efficiency of the securities market in particular and of the financial institutions in general has a bearing on the healthy development of industry. For example, if the financial institutions are unable to evaluate correctly or are not discriminating enough, the inefficient firms may be backed while the efficient ones may find little support. Unfortunately, sectoral considerations concerned with allocation of funds among various segments of industry have so predominated the political thinking that even wrong managements in the right industries were provided funds with disastrous results. In my view, this kind of indiscrimination is among the factors underlying the growing industrial sickness in the country. How far the capital market institutions, including the stock exchange, can differentiate between efficient and the inefficient firms on the basis of the ability of each to make good use of the funds supplied is important to industrial health of the country. He need to pay more attention than we have done so far to evolving a market mechanism which is efficient in this sense. This would require that the securities market performs its "evaluating" function, not on a hit or miss basis, as at present, but on a sounder basis.

#### 12.2 Number and Structure of Stock Exchanges and Dealers Network

2.1 There is a widespread facile belief that more stock exchanges should be opened. I feel that this belief is not based on a correct appreciation of the problem.

2.2 As I have argued below, the present number of stock exchanges in India is more than adequate. What is lacking is a dealer network (i.e. the "feeder canals" of the system) and also proper integration among the exchanges. Hence, the need is, not more stock

exchanges, but a supplementary facility or a widespread dealer network to reach out every nook and corner of the country. Even in a country as large as the USA, with very widespread habit of investing in corporate securities, there are only 9 security exchanges whereas we could boast of 13. There used to be 14 exchanges in USA in 1966. It is significant that the number has come down despite a vastly increased population of securityholders.

2.3 It only proves that the method of multiplying the number of stock exchanges is not the only, nor the best, trading arrangement possible, more particularly with the revolution taking place in the communication technology. Our experience about the new stock exchanges opened during the last few years cannot be regarded as happy. Given the country's large size, we need quickly to move towards establishing a properly regulated dealer network on the lines of the National Association of Security Dealers in the USA. The Committee's recommendation for having a system of licensed dealers should be underlined in this context, although at this stage, the Committee has not recommended the formation of dealers' association referred to above. Also, we need to evolve towards a unified national market system as is happening in other countries.

#### 12.3. Multiple Listing and Fragmented Markets

3.1 Another questionable policy is the encouragement being given to multiple listing (i.e. listing of a security on more than one exchange). Except in the case of securities having a very sizable turnover, this policy does more harm than good because it fragments the market into pockets, affecting both liquidity and price formation. Considerable price difference can be observed between two exchanges at time. There have been other difficulties too, such as different XD or XR dates among the exchanges. Further, the proportion of inactively traded issues has shown a strong tendency to increase in all the stock exchanges during the last 20 years. The problems are compounded because the various stock exchanges are not fully integrated into a single national system.

#### 12.4. Regional Specialisations in a Unified Structure

4.1 What we should aim at is a coherent and unified structure which will centralise the buy/sell orders from all parts of the country in one place and, at the same time, reach out investors all over the country through a dealer network. This involves a degree of regional specialisation among the exchanges. This is not a revolutionary suggestion as some specialisation has already existed due to natural forces. It needs to be recognised and strengthened, rather than de-

molished. For example, the Madras Stock Exchange has a specialisation in South Indian plantation securities and other local securities. This should not only be preserved but strengthened by avoiding policies which would fragment the market. Fragmentation results from multiple listing of a security on several exchanges, unless all of them are integrated into a single system. The idea is that anybody from anywhere wanting to buy/sell South Indian Plantation securities would have to put the transaction through the Madras Stock Exchange. This system will provide the maximum liquidity possible in a particular security. The liquidity is reduced when the market in the particular security is fragmented among, say, Madras, Bombay and Bangalore Stock Exchanges.

4.2 Centralisation of trading, particularly in the securities of the medium and small companies, through regional specialisation among stock exchanges, will be beneficial to the smooth functioning of the market. Mechanisms should, therefore, be strengthened for order collection and transmission from various parts of the country to the particular market without involving undue costs to the transactor. This will help to build a unified national market system in securities and at the same time vitalise the regional exchanges.

4.3 The question may be asked as to how many stock exchanges could be regarded as the optimum number for a country like India. In our opinion, taking into account the regional patterns in India, the optimal number of stock exchanges would certainly not exceed ten. Perhaps 7-8 may be nearer the optimum point.

4.4 If we allow such specialisation to develop among the exchanges, there would be room for the growth of all the regional stock exchanges. Securities trading would be smoother. Of course, as noted earlier, this would require improved communication system for rapid transmission of sell/buy orders from investors in all parts of the country to a single point, as is being done in other countries. It would also require a network of security dealers/agents spread throughout the country to provide a contact point for investors.

#### 12.5. National/Regional Exchange Relationship

5.1 Here, the role of "regional" stock exchanges may be distinguished from that of the "national" stock exchange. Historically in India, the Bombay Stock Exchanges is the 'national' stock exchange, not only because it towers above all the rest in terms of the volume of business but also because it serves as a kind of nerve-centre for the country's entire securities market. For a large country such as India, or the U.S.A., a system comprising both national and regional exchanges is needed with a clear understanding of their respective roles.

5.2 Only the securities of large and nationally known companies with widespread investment interest should be allowed to be listed on the 'national' exchange. Securities of the smaller and less widely known companies will not be listed on the national exchange but only a regional exchange. This means that the listing criteria on the national exchange will

be made stricter than that for regional exchanges. Trading arrangements which are appropriate for securities with high turnover may not be appropriate for those with low and infrequent trading. Hence, a differentiation among the exchanges on the above lines would permit greater flexibility to evolve trading arrangements which are the most appropriate for the various groups of securities.

Over a period, a regional security may graduate to the rank of the national security.

5.3 Within a stock exchange, the dichotomy typified by "specified" and "non-specified" securities should be ended as it has led to concentration of activity on a few scrips mainly by way of speculation. Trading in a broader range of securities needs to be promoted.

5.4 Unfortunately in India, the logically distinctive roles of the regional and the national stock exchanges have got mixed up, partly because of indiscriminate multiple listing and partly because the official listing regulations do not allow listing criteria to be varied among the stock exchanges.

#### 12.6 Raising the Threshold for Listing on the Present Bombay Stock Exchange and Opening of a Second Stock Exchange at Bombay.

6.1 To move towards the optimal structure visualised above, some drastic changes in the present structure of the Indian Stock Exchanges would be needed. They are dealt with below.

6.2 In recognition of the fact that the present Bombay Stock Exchange (BSE) is the "national" stock exchange, and to reduce the over-crowding of all kinds of securities (like plying of taxis and motor cars together) on this exchange, the threshold level of minimum paid-up capital and minimum number of holders for listing of a security on the BSE should be raised well above (say, three to four times) that for the regional stock exchanges. In principle, the threshold levels for listing should be allowed to be varied among the exchanges taking into account the local conditions prevailing in the particular region. This is quite in line with the pattern obtaining in several countries. No particular advantage results from the uniformity being imposed in India in this regard at present.

6.3 The suggestion about creation of a second stock exchange at Bombay is part of the structural scheme suggested in this note. It will have certain other advantages too, as explained below. While the present BSE will be the national exchange, the second one proposed for Bombay will have a regional character. As will be clear from our discussion below, the second stock exchange is being suggested as part of a structural reform and this suggestion in no way contradicts our observations on the number and structure of exchanges needed in India.

6.4 The advantages that will accrue from the creation of a second stock exchange at Bombay and

from the recognition of the present BSE as the country's national exchange are as follows :

- (i) It will revitalise the regional stock exchanges which seem to have been losing ground. Trading in the regional securities (i.e. securities of medium and small companies with predominantly, though not exclusively, local or regional interest) will be relegated to the regional stock exchanges. This will give the regional exchanges some "bread and butter" business. These securities will not be eligible for listing on the national stock exchange (i.e. BSE) as they will not be able to meet the stricter listing criteria of the national exchange. However, a large company, which satisfies such criteria, will be free to seek listing on the regional exchange or the national exchange or on both or even more. A regional security may, over a period, graduate to the status of a national security through the company's growth and become eligible for listing also on the national stock exchange but the option will be the company's.
- (ii) The above arrangement will lead to better liquidity and price formation, specially for the securities of the medium and small companies. It will also promote trading over a broader range of securities as against the excessive concentration on a handful of scrips under the present system.
- (iii) Differentiation of the national stock exchange from the regional stock exchanges would permit greater flexibility to evolve sets of regulatory and trading procedures more suited to the class of securities and local circumstances. The position is very rigid today.
- (iv) Presently, many investors, and even companies are being misguided by BSE listing, thinking that it will ensure ready liquidity. This has neither helped the companies nor the investors, as the securities have remained inactive even after listing on the BSE. It is reported that many small companies after getting initial listing on the BSE withdraw later on from the BSE listing, confining to a regional exchange. This creates unnecessary problems and is a form of deception of the investor. It should be stopped.
- (v) The creation of second stock exchange at Bombay will at once provide an opportunity to bring badly needed new blood into stock broking profession. The BSE has been resisting any significant increase in its membership. No speedy progress will be possible in this regard without opening a second stock exchange at Bombay. Further, it is not only a question of increase in membership but also a qualitative change in the character of membership. Because of the system of hereditary membership on

the BSE, it has lot of old foggies who dominate the exchange.

- (vi) The creation of a second stock exchange in Bombay will indirectly help to discipline the present broker community.
- (vii) Through proper selection of its members and devising of appropriate market-making procedures over a broad range of securities, the new exchange at Bombay can bring about greater investment-orientation in the securities trading. The BSE is over-dominated by speculation business. The provision of a separate session for cash shares, as proposed by the Committee, is, in my opinion, unlikely to make much difference because the nature of a market is determined by the attitudes of its members and operators. The proposed second stock exchange at Bombay should be concerned with cash business only and should assiduously try to broaden the trading.
- (viii) The volume of business on the BSE has increased to such an extent that the BSE has been unable to cope with it adequately. Further growth is anticipated in the near future. Even now, the market has to remain closed for several days each month just for settlement work. The opening of a second stock exchange at Bombay will relieve this pressure.
- (ix) Because of BSE's dominant position, its members have sometimes behaved as monopolists. A second stock exchange will provide a corrective to this tendency by offering healthy competition.
- (x) The sheer physical constraints of space to provide for future expansion in membership makes the opening of a second stock exchange at Bombay not only desirable but imperative. The BSE does not have sufficient space even for its existing members, not to speak of expanded membership. We need to visualise development over the next 10—15 years. Even if BSE's building plans materialise, it is unlikely that the space constraint in the present location will be resolved.

6.5 An argument which may be advanced against the suggestion for opening a second exchange at Bombay is that before the SCR Act 1956 came into force, Bombay in fact had two stock exchanges and these had to be amalgamated into the present one. This argument is not relevant to day. At the time when the SCR Act was introduced, almost the sole consideration before the governmental authorities was how to bring all share trading within the scope of the legal regulations. It was thought that this would be easier with a unitary structure. The next stage of the progress to be achieved requires attention to be paid to structural changes for greater efficiency since legal control is now reasonably well established.



## 12.7 Promoting a competitive structure of investment institutions.

7.1 It needs to be appreciated that the existence of large monolithic institutions impairs the efficiency of the securities market in several ways. The volume of two-way transactions is reduced impairing liquidity. Also, the scope for interplay of independent opinions about various securities is reduced impairing the evaluation function of the market. Further, their operations, by themselves, tend to create abnormal price fluctuations of securities. Also, a little reflection will show that there is a certain inter-connection between the growing industrial sickness and the present structure of our financial institutions which cannot be regarded as models of efficiency. More competition among the institutions and a pressure on them to show results could help to improve efficiency all round.

7.2 However, their greatest damaging effect is on the market for securities of the small and medium sized companies because of two special reasons. Firstly, given the sheer size of the investment funds of these monolithic institutions, portfolio management becomes uneconomic if there are too many relatively small holdings. Hence, their interest naturally centres on the largest companies. A competitive structure of investment institutions would not have this disadvantage. Secondly, given the fiduciary responsibilities of the professional investment managers of these institutions, they tend to focus on lower risk investments. The worst sufferers from the dominance of large investment institutions are the small companies. The result is that the stock market is unable to provide even as much service as it used to provide earlier to the small and medium-sized companies.

7.3 There is a strong case for a decentralised and competitive structure of investment institutions in place of the present monolithic structure, not only from the viewpoint of securities market functioning but also from the viewpoint of better and more economical service to the beneficiaries of the institutions. In particular, we should have a competing structure of unit trusts. Also, the over-all return earned by the various investment institutions, including LIC, GIC, UTI and the development banks on their "market holdings" should be regularly compared and publicised for each type of security. As observed earlier, efficiency of the capital market institutions has a close bearing on healthy development of industry.

7.4 The individual investors collectively, as opposed to institutional investors, hold greater importance for the securities of the relatively more risky new and small companies. The individual investors are not inhibited by the constraints faced by the large institutional investors. If this is conceded, and since the emergence and growth of new small companies is important for economic progress, it would be

desirable to neutralise the disincentive effects of taxation on direct individual investment in corporate securities by extending similar tax concessions to direct investment by individuals as are available on indirect investment, such as through units.

## 12.8 Option Trading

8.1 We must recognise that option trading can be useful for correcting a run-away tendency in share prices, specially when the current price deviates too far from what may be regarded as justifiable on the basis of realistic expectations about future and proper assessment of all factors.

8.2 The option trading should be for fixed periods. These fixed periods should be much longer than the fortnightly settlement periods, the idea being to counter the short term speculative excesses by the counter force of longer term considerations in the form of options trading. The ideal fixed period for options trading, in my view, would be three months which is long enough to have a sobering effect. In any case, the period should not be less than one month.

8.3 Form of option trading to be permitted could be 'Put option' and 'Call option' but not 'double option' because we would like the trader to take a view on what the longer term share price should be on his assessment of various factors. Double option is more of the gambling type because it is not based on taking a view about price direction.

8.4 The option contract should be intended to correct a rather large divergence in share prices. Hence, the form of contract should be such that it becomes enforceable only when the price has moved in the particular direction by more than a certain minimum percentage (say, 10 per cent) over the level prevailing on the date of the contract but not otherwise. For example, if the price of TISCO share is Rs. 950 today when I buy a 'call option' for 1000 TISCO shares to be settled at the end of three months, under the conditions stipulated above, I would be able to enforce the call option if, and only if, the price has moved to Rs. 1045 (i.e. Rs. 950 plus 10 per cent of Rs. 950) or more. Similarly, had I bought a put option, it would be enforceable if price at the end of three months would have fallen to Rs. 855 (i.e. Rs. 950 less 10 per cent of Rs. 950). The idea is to use option trading for the purpose of correcting significant erroneous tendencies in share prices. Had such option trading been allowed in India, the current tendency towards excessively high share prices could have been moderated. While the option would be exercisable only if the price moves beyond the prescribed minimum limit of 10 per cent as suggested above, the price for option dealings, whether call or put options, should be allowed to be governed by market forces.

Thus, instead of banning option trading altogether, we should attempt to channel it to useful forms.

TABLE NO. 1

## Statement Showing Number, Constitution and Details of Recognition

| Sl. No. | Stock Exchange                                           | Year of Establishment. | Type of Constitution         | Date of initial recognition | Nature of Recognition |
|---------|----------------------------------------------------------|------------------------|------------------------------|-----------------------------|-----------------------|
| 1.      | Stock Exchange Bombay                                    | 1875                   | Association of Individuals.  | August 31, 1957             | Permanent             |
| 2.      | Ahmedabad share and Stock Brokers Association, Ahmedabad | 1894                   | Association of individuals   | September 16, 1957          | Permanent             |
| 3.      | Calcutta Stock Exchange Association                      | 1908                   | Company limited by shares    | October 10, 1957            | Permanent             |
| 4.      | Madras, Stock Exchange Ltd., Madras                      | 1937                   | Company Limited by Guarantee | October 15, 1957            | Permanent             |
| 5.      | Delhi Stock Exchange Assn. Ltd., New Delhi               | 1947                   | Company Limited by shares    | December 9, 1957            | Permanent             |
| 6.      | Hyderabad Stock Exchange Ltd., Hyderabad                 | 1943                   | Company Limited by Guarantee | September 29, 1958          | Permanent             |
| 7.      | Share Brokers Association (MP Stock Exchange), Indore.   | 1930                   | Association of individuals   | December 24, 1958           | Temporary             |
| 8.      | Bangalore Stock Exchange, Bangalore                      | 1957                   | Company Limited by shares    | February 16, 1963           | Permanent             |
| 9.      | Cochin Stock Exchange, Cochin                            | 1978                   | Public Limited Co.           | May 10, 1979                | Temporary             |
| 10.     | Uttar Pradesh Stock Exchange Assn. Ltd., Kanpur.         | 1982                   | Company Limited by shares    | June 3, 1982                | Temporary             |
| 11.     | Pune Stock Exchange Ltd., Pune.                          | 1982                   | Company Limited by guarantee | September 2, 1982           | Temporary             |
| 12.     | Ludhiana Stock Exchange Assn. Ltd., Ludhiana             | 1984                   | Company Limited by guarantee | April 29, 1983              | Temporary             |
| 13.     | Gauhati Stock Exchange Ltd., Gauhati                     | 1984                   | Company Limited by Guarantee | May 1, 1984                 | Temporary             |
| 14.     | Kanara Stock Exchange, Mangalore                         | 1985                   | Company Limited by Guarantee | September 9, 1985           | Temporary             |

TABLE NO. 2

## Growth Pattern of Listed Stock

| Sl. No. | As at 31st December                                                  | 1946  | 1961   | 1975   | 1983   | 1984   | % increase in 1984 |           |           |           |
|---------|----------------------------------------------------------------------|-------|--------|--------|--------|--------|--------------------|-----------|-----------|-----------|
|         |                                                                      |       |        |        |        |        | Over 1946          | Over 1961 | Over 1975 | Over 1983 |
| 1.      | No. of Listed Companies                                              | 1,125 | 1,203  | 1,852  | 3,118  | 3,882  | 245                | 223       | 110       | 25        |
| 2.      | No. of Stock Issues of Listed Companies                              | 1,506 | 2,111* | 3,230* | 4,937* | 5,485* | 264                | 160       | 70        | 11        |
| 3.      | Paid-up capital of Listed Companies (Cr. Rs.)                        | 2,70  | 6,75   | 21,42  | 41,63  | 50,82  | 1782               | 653       | 137       | 22        |
| 4.      | Market Value of Paid-up Capital of Listed Companies (Cr. Rs.)        | 9,71  | 12,16  | 28,05  | 89,30  | 99,84  | 928                | 721       | 256       | 12        |
| 5.      | Paid-up Capital per unit of Listed Companies (Lakh Rs.)              | 24    | 56     | 116    | 134    | 131    | 446                | 134       | 13        | —2.2      |
| 6.      | Market value of paid-up Capital per unit Listed Companies (Lakh Rs.) | 86    | 101    | 151    | 286    | 257    | 199                | 155       | 70        | —10       |

\*Include 149 Debenture issues in 1961, 197 Debenture issues in 1975, 571 Debenture issues in 1983 and 541 Debenture issues in 1984.

Source: The Stock Exchange Foundation, Bombay.

TABLE NO. 3  
**Saving of the Household Sector in the Form of Financial Assets**  
*(Amount in Rs. Crores at current prices)*

| ITEM                                                                          | 1970-71 | 1975-76 | 1978-79* | 1979-80* | 1980-81* | 1981-82 | 1982-83£ | 1983-84§ |
|-------------------------------------------------------------------------------|---------|---------|----------|----------|----------|---------|----------|----------|
| <b>Saving (Gross) of the household Sector in Financial Assets (i to xi)</b>   | 2084.5  | 4994.3  | 9500.2   | 10259.7  | 11221.7  | 13947.7 | 15748.2  | 18999.7  |
| (a)                                                                           | 5.5     | 7.2     | 10.4     | 10.2     | 9.3      | 10.0    | 10.3     | 10.3     |
| (i) Currency                                                                  | 354.6   | 341.9   | 1430.5   | 1332.2   | 1627.5   | 985.1   | 2133.5   | 2794.3   |
| (a)                                                                           | 0.9     | 0.5     | 1.6      | 1.3      | 1.4      | 0.7     | 1.4      | 1.5      |
| (b)                                                                           | 17.0    | 6.9     | 15.1     | 13.0     | 14.5     | 7.1     | 13.5     | 14.7     |
| (ii) Bank Deposits@                                                           | 794.7   | 2129.4  | 4625.6   | 4658.8   | 5059.4   | 5025.2  | 6015.4   | 7596.5   |
| (a)                                                                           | 2.1     | 3.1     | 5.1      | 4.6      | 4.2      | 3.6     | 3.9      | 4.1      |
| (b)                                                                           | 38.1    | 42.6    | 48.7     | 45.4     | 45.1     | 36.0    | 38.2     | 40.0     |
| (iii) Loans to companies†                                                     | 67.0    | 129.7   | 232.0    | 476.6    | 320.5    | 1701.3  | 1214.2   | 1252.4   |
| (a)                                                                           | 0.2     | 0.2     | 0.3      | 0.5      | 0.3      | 1.2     | 0.8      | 0.7      |
| (b)                                                                           | 3.2     | 2.6     | 2.4      | 4.6      | 2.9      | 12.3    | 7.7      | 6.6      |
| (iv) Life Insurance Fund**                                                    | 219.9   | 422.2   | 683.0    | 772.9    | 908.3    | 996.6   | 1234.9   | 385.9    |
| (a)                                                                           | 0.6     | 0.6     | 0.7      | 0.8      | 0.8      | 0.7     | 0.8      | 0.8      |
| (b)                                                                           | 10.6    | 8.5     | 7.2      | 7.5      | 8.1      | 7.1     | 7.8      | 7.3      |
| (v) Provident Fund@@                                                          | 422.2   | 1079.6  | 1605.3   | 1748.5   | 2069.6   | 2301.8  | 2940.6   | 3217.3   |
| (a)                                                                           | 1.1     | 1.6     | 1.7      | 1.8      | 1.7      | 1.7     | 1.9      | 1.8      |
| (b)                                                                           | 20.3    | 21.6    | 16.9     | 17.1     | 18.4     | 16.5    | 18.7     | 16.9     |
| (vi) Claims on Government                                                     | 112.9   | 90.8    | 542.7    | 737.5    | 743.5    | 1729.6  | 1240.8   | 1593.5   |
| (a)                                                                           | 0.3     | 0.1     | 0.6      | 0.7      | 0.6      | 1.3     | 0.8      | 0.9      |
| (b)                                                                           | 5.4     | 1.8     | 5.7      | 7.2      | 6.6      | 12.4    | 7.9      | 8.4      |
| (vii) Compulsory Deposits††                                                   | ..      | 741.5   | -316.2   | -207.0   | -93.6    | 19.9    | 33.7     | 55.4     |
| (a)                                                                           | ..      | 1.0     | -0.4     | -0.2     | -0.1     | ..      | ..       | ..       |
| (b)                                                                           | ..      | 14.9    | -3.3     | -2.0     | -0.8     | 0.1     | 0.2      | 0.3      |
| (viii) Corporate (Pvt. Financial and non-financial) & Co-operative Securities | 64.9    | 38.4    | 201.0    | 248.2    | 180.4    | 410.2   | 372.7    | 502.8    |
| (a)                                                                           | 0.2     | 0.1     | 0.2      | 0.2      | 0.1      | 0.3     | 0.3      | 0.3      |
| (b)                                                                           | 3.1     | 0.7     | 2.1      | 2.4      | 1.6      | 2.9     | 2.4      | 2.7      |
| (ix) Securities of Term Lending and Other Financial Institutions              | 1.9     | 4.9     | 2.4      | 4.4      | 4.7      | 29.8    | 3.8      | 3.8      |
| (a)                                                                           | ..      | ..      | ..       | ..       | ..       | ..      | ..       | ..       |
| (b)                                                                           | 0.1     | 0.1     | ..       | ..       | ..       | 0.2     | ..       | ..       |
| (x) Units of Unit Trust of India                                              | 14.4    | 15.9    | 78.9     | 40.6     | 32.8     | 38.7    | 120.6    | 194.5    |
| (a)                                                                           | ..      | ..      | 0.1      | ..       | ..       | ..      | 0.1      | 0.1      |
| (b)                                                                           | 0.7     | 0.3     | 0.8      | 0.4      | 0.3      | 0.3     | 0.8      | 1.0      |
| (xi) Other Assets‡                                                            | 32.0    | ..      | 414.8    | 447.0    | 368.6    | 709.5   | 438.0    | 403.3    |
| (a)                                                                           | 0.1     | ..      | 0.5      | 0.5      | 0.3      | 0.5     | 0.3      | 0.2      |
| (b)                                                                           | 1.5     | ..      | 4.4      | 4.4      | 3.3      | 5.1     | 2.8      | 2.1      |

**Notes :** Due to change in methodology, estimates from 1979-80 onwards are not strictly comparable with those for 1970-71 and also with those published earlier.

(a) Percentage to Net National Product at current market prices.

(b) Percentage to Financial Assets/Liabilities.

@ Includes deposits with Co-operative non-credit societies.

† Including deposits with non-banking companies.

\*\* Including State Governments and Postal Insurance Fund.

@@ Includes Contributory Pension Fund from 1979-80 onwards.

‡ Represents mainly net position in trade transactions with private companies and State Electricity Boards.

†† Scheme force from 1974-75.

\* Provisional. £ Preliminary § Tentative Estimates.

**Source:** Report on Currency and Finance 1983-84 of the Reserve Bank of India.

TABLE NO. 4

## Development Pattern of Stock Exchanges

| As at 31st December | Name of Stock Exchange | No. of Listed Cos. | No. of Stock Issues Listed | Paid-up Value (Cr. Rs.) |         |      |         | Market Value of Capital (Cr. Rs.) | Average per Co. Lakh Rs. |              |
|---------------------|------------------------|--------------------|----------------------------|-------------------------|---------|------|---------|-----------------------------------|--------------------------|--------------|
|                     |                        |                    |                            | Equity                  | Prefer. | Deb. | Total   |                                   | Total Capital            | Market Value |
| 1                   | 2                      | 3                  | 4                          | 5                       | 6       | 7    | 8       | 9                                 | 10                       | 11           |
| 1984                | Bombay                 | 1295               | 2154                       | 3331                    | 113     | 2370 | 5814    | 10219                             | 449                      | 789          |
|                     | Calcutta               | 1862               | 2314                       | 1850                    | 101     | 623  | 2574    | 5392                              | 138                      | 290          |
|                     | Madras                 | 441                | 720                        | 1187                    | 38      | 746  | 1971    | 3241                              | 447                      | 735          |
|                     | Ahmedabad              | 265                | 522                        | 865                     | 24      | 733  | 1622    | 3246                              | 612                      | 1225         |
|                     | Delhi                  | 952                | 1331                       | 1577                    | 74      | 924  | 2575    | 4991                              | 270/271                  | 524          |
|                     | Hyderabad              | 120                | 194                        | 295                     | 11      | 217  | 523     | 847                               | 436                      | 706          |
|                     | Madhya Pradesh         | 43                 | 62                         | 128                     | 5       | 117  | 250     | 432                               | 581                      | 1005         |
|                     | Bangalore              | 203                | 321                        | 806                     | 38      | 385  | 1229    | 2052                              | 605                      | 1011         |
|                     | Cochin                 | 49                 | 49                         | 473                     | ..      | ..   | 473     | 1444                              | 965                      | 2947         |
|                     | Pune                   | 65                 | 69                         | 599                     | N.A.    | 141  | 740     | 1695                              | 1139                     | 2608         |
|                     | Uttar Pradesh          | 436                | 459                        | 408                     | ..      | 192  | 600     | 1627                              | 138                      | 373          |
|                     | Ludhiana               | 20                 | 25                         | 128                     | ..      | 93   | 221     | 519                               | 1105                     | 2595         |
| Total               |                        | 5751               | 8220                       | 11647                   | 404     | 6541 | 1246363 | 35705                             | 6886                     | 14808        |
| 1983                | Bombay                 | 1151               | 1919                       | 2733                    | 127     | 1870 | 4730    | 9769                              | 411                      | 849          |
|                     | Calcutta               | 1218               | 1732                       | 1165                    | 99      | 517  | 1781    | 3120                              | 146                      | 256          |
|                     | Madras                 | 415                | 689                        | 898                     | 42      | 345  | 1285    | 2706                              | 310                      | 652          |
|                     | Ahmedabad              | 217                | 455                        | 844                     | 42      | 491  | 1377    | 3017                              | 635                      | 1390         |
|                     | Delhi                  | 617                | 988                        | 1226                    | 77      | 581  | 1884    | 4219                              | 305                      | 684          |
|                     | Hyderabad              | 107                | 186                        | 250                     | 11      | 109  | 370     | 762                               | 346                      | 712          |
|                     | Madhya Pradesh         | 39                 | 54                         | 70                      | 5       | 15   | 90      | 164                               | 231                      | 421          |
|                     | Bangalore              | 189                | 315                        | 469                     | 32      | 233  | 734     | 1726                              | 388                      | 913          |
|                     | Cochin                 | 44                 | 46                         | 214                     | ..      | ..   | 214     | 712                               | 486                      | 1618         |
|                     | Pune                   | 56                 | 58                         | 310                     | ..      | 50   | 360     | 1383                              | 642                      | 2470         |
|                     | Uttar Pradesh          | 147                | 166                        | 255                     | ..      | 166  | 421     | 1038                              | 286                      | 706          |
|                     | Ludhiana               | 6                  | 6                          | 17                      | ..      | ..   | 17      | 55                                | 283                      | 917          |
| Total               |                        | 4206               | 6614                       | 8451                    | 435     | 4377 | 13263   | 28671                             | 4469                     | 11588        |
| 1980                | Bombay                 | 992                | 1674                       | 2114                    | 145     | 671  | 2930    | 5421                              | 295                      | 546          |
|                     | Calcutta               | 891                | 1393                       | 1232                    | 105     | 136  | 1472    | 2797                              | 165                      | 313          |
|                     | Madras                 | 398                | 644                        | 635                     | 37      | 117  | 788     | 1311                              | 198                      | 329          |
|                     | Ahmedabad              | 169                | 328                        | 439                     | 34      | 128  | 601     | 1352                              | 355                      | 799          |
|                     | Delhi                  | 452                | 727                        | 788                     | 96      | ..   | 883     | 1943                              | 195                      | 429          |
|                     | Hyderabad              | 81                 | 133                        | 148                     | 10      | 5    | 162     | 248                               | 199                      | 305          |
|                     | Madhya Pradesh         | 26                 | 41                         | 54                      | 26      | 4    | 84      | 153                               | 324                      | 586          |
|                     | Bangalore              | 163                | 266                        | 319                     | 23      | 60   | 402     | 759                               | 246                      | 465          |
| Total               |                        | 3172               | 5206                       | 5729                    | 476     | 1121 | 7322    | 13984                             | 1977                     | 3772         |
| 1970                | Bombay                 | 580                | 1060                       | 852                     | 123     | 141  | 1116    | 1751                              | 192                      | 302          |
|                     | Calcutta               | 637                | 1075                       | 556                     | 75      | 90   | 721     | 1067                              | 113                      | 167          |
|                     | Madras                 | 363                | 689                        | 255                     | 31      | 109  | 395     | 459                               | 109                      | 126          |
|                     | Ahmedabad              | 126                | 267                        | 146                     | 32      | 20   | 198     | 340                               | 157                      | 270          |
|                     | Delhi                  | 174                | 332                        | 178                     | 40      | 28   | 246     | 386                               | 141                      | 222          |
|                     | Hyderabad              | 40                 | 72                         | 43                      | 6       | 2    | 51      | 64                                | 127                      | 160          |
|                     | Madhya Pradesh         | 16                 | 22                         | 16                      | 2       | ..   | 18      | 42                                | 113                      | 260          |
|                     | Bangalore              | 68                 | 109                        | 46                      | 5       | 2    | 53      | 70                                | 79                       | 103          |
| Total               |                        | 2004               | 3626                       | 2092                    | 314     | 392  | 2798    | 4179                              | 1031                     | 1610         |

| 1     | 2              | 3    | 4    | 5   | 6   | 7  | 8    | 9    | 10  | 11   |
|-------|----------------|------|------|-----|-----|----|------|------|-----|------|
| 1961  | Bombay         | 297  | 538  | 295 | 56  | 31 | 381  | 645  | 128 | 217  |
|       | Calcutta       | 576  | 924  | 236 | 55  | 35 | 326  | 548  | 57  | 95   |
|       | Madras         | 249  | 451  | 82  | 12  | 13 | 112  | 180  | 45  | 72   |
|       | Ahmedabad      | 96   | 203  | 68  | 16  | .. | 84   | 215  | 87  | 223  |
|       | Delhi          | 103  | 198  | 68  | 16  | 1  | 85   | 127  | 82  | 123  |
|       | Hyderabad      | 19   | 27   | 60  | 3   | .. | 63   | 121  | 333 | 638  |
|       | Madhya Pradesh | 8    | 9    | 3   | ..  | .. | 3    | 5    | 39  | 59   |
| Total |                | 1348 | 2350 | 812 | 158 | 79 | 1054 | 1841 | 771 | 1427 |
| 1946  | Bombay         | 197  | 271  | ..  | ..  | .. | 123  | ..   | 63  | ..   |
|       | Calcutta       | 576  | 807  | ..  | ..  | .. | 147  | ..   | 26  | ..   |
|       | Madras         | 192  | 298  | ..  | ..  | .. | 41   | ..   | 21  | 6    |
|       | Ahmedabad      | 81   | 82   | ..  | ..  | .. | 15   | ..   | 19  | ..   |
|       | Delhi          | 73   | 92   | ..  | ..  | .. | 73   | ..   | 100 | ..   |
| Total |                | 1119 | 1550 | ..  | ..  | .. | 399  | ..   | 229 | 6    |

Source : The Stock Exchange Official Directory

TABLE NO. 5  
Marketwise Distribution Pattern of Listed Companies

| Listed on number of Exchanges | No. of Companies listed |                      |                      |
|-------------------------------|-------------------------|----------------------|----------------------|
|                               | As at 31st Dec. 1984    | As at 31st Dec. 1983 | As at 31st Dec. 1980 |
| One Exchange                  | 2,482                   | 2,309                | 1,568                |
| Two Exchanges                 | 1,099                   | 613                  | 549                  |
| Three Exchanges               | 203                     | 148                  | 109                  |
| Four Exchanges                | 63                      | 25                   | 25                   |
| Five Exchanges                | 14                      | 7                    | 8                    |
| Six Exchanges                 | 11                      | 10                   | 4                    |
| Seven Exchanges               | 4                       | 2                    | 1                    |
| Eight Exchanges               | 2                       | 1                    | 1                    |
| Nine Exchanges                | 2                       | 1                    | ..                   |
| Ten Exchanges                 | ..                      | 2                    | ..                   |
| Eleven Exchanges              | 2                       | ..                   | ..                   |
| Total                         | 3,882                   | 3,118                | 2,265                |

Source : The Stock Exchange Official Directory

TABLE NO. 6

Response from New Delhi and other Centres in Maharashtra and Gujarat States

| Issue No. | Centres (New Delhi, Gujarat & Maharashtra States) | Applications received (Percentage) | Amounts Collected (Percentage) | Total number of centres in the country for the issue concerned |
|-----------|---------------------------------------------------|------------------------------------|--------------------------------|----------------------------------------------------------------|
| 1.        | 7                                                 | 76                                 | 85                             | 15                                                             |
| 2.        | 15                                                | 68                                 | 72                             | 52                                                             |
| 3.        | 11                                                | 69                                 | 66.5                           | 56                                                             |
| 4.        | 6                                                 | 45                                 | 61                             | 34                                                             |
| 5.        | 6                                                 | 61.5                               | 62                             | 29                                                             |
| 6.        | 9                                                 | 78                                 | 76                             | 28                                                             |
| 7.        | 8                                                 | 60                                 | 64                             | 33                                                             |
| 8.        | 13                                                | 62.5                               | 72                             | 45                                                             |
| 9.        | 6                                                 | 52                                 | 66                             | 35                                                             |
| 10.       | 19                                                | 66                                 | 62.5                           | 50                                                             |
| 11.       | 9                                                 | 67                                 | 49                             | 35                                                             |
| 12.       | 14                                                | 75                                 | 77                             | 53                                                             |
| 13.       | 9                                                 | 49                                 | 67                             | 35                                                             |
| 14.       | 12                                                | 63                                 | 63                             | 24                                                             |
| 15.       | 9                                                 | 72                                 | 74                             | 32                                                             |
| 16.       | 8                                                 | 65                                 | 70                             | 29                                                             |
| 17.       | 7                                                 | 71                                 | 67                             | 50                                                             |

TABLE NO 7

Details of Capital raised from the New Issues Market Since 1970-71 by Companies

| Year           | No. of Companies | Equity | Preference | Non-Convertible debentures | Convertible Debentures | Total |
|----------------|------------------|--------|------------|----------------------------|------------------------|-------|
| 1              | 2                | 3      | 4          | 5                          | 6                      | 7     |
| <b>1970-71</b> |                  |        |            |                            |                        |       |
| New            | 41               | 20.91  | 8.47       | 2.00                       | ..                     | 31.38 |
| Existing       | 23               | 2.47   | 2.87       | 14.40                      | ..                     | 19.74 |
| Total          | 64               | 23.38  | 11.34      | 16.40                      | ..                     | 51.12 |
| <b>1971-72</b> |                  |        |            |                            |                        |       |
| New            | 47               | 24.87  | 6.47       | 2.42                       | ..                     | 33.76 |
| Existing       | 11               | 0.83   | 0.56       | 1.65                       | ..                     | 3.04  |
| Total          | 58               | 25.70  | 7.03       | 4.07                       | ..                     | 36.80 |
| <b>1972-73</b> |                  |        |            |                            |                        |       |
| New            | 69               | 28.07  | 4.84       | 0.25                       | ..                     | 33.16 |
| Existing       | 15               | 3.74   | 1.22       | 18.00                      | ..                     | 22.96 |
| Total          | 84               | 31.81  | 6.06       | 18.25                      | ..                     | 56.12 |
| <b>1973-74</b> |                  |        |            |                            |                        |       |
| New            | 139              | 36.19  | 5.56       | ..                         | ..                     | 41.75 |
| Existing       | 18               | 11.13  | 1.76       | 2.61                       | ..                     | 15.50 |
| Total          | 157              | 47.32  | 7.32       | 2.61                       | ..                     | 57.25 |

| 1                  | 2   | 3      | 4    | 5     | 6      | 7      |
|--------------------|-----|--------|------|-------|--------|--------|
| <i>1974-75</i>     |     |        |      |       |        |        |
| New . . . . .      | 94  | 23.98  | 1.96 | ..    | ..     | 64.29  |
| Existing . . . . . | 14  | 4.48   | 2.69 | 6.12  | ..     | 13.29  |
| Total . . . . .    | 108 | 28.46  | 4.65 | 6.12  | ..     | 39.23  |
| <i>1975-76</i>     |     |        |      |       |        |        |
| New . . . . .      | 101 | 58.59  | 5.70 | ..    | ..     | 64.29  |
| Existing . . . . . | 10  | 4.98   | 2.25 | 0.40  | ..     | 7.63   |
| Total . . . . .    | 111 | 63.57  | 7.95 | 0.40  | ..     | 71.92  |
| <i>1976-77</i>     |     |        |      |       |        |        |
| New . . . . .      | 88  | 34.77  | 2.76 | ..    | ..     | 37.53  |
| Existing . . . . . | 9   | 5.42   | 1.95 | 1.00  | ..     | 8.37   |
| Total . . . . .    | 97  | 40.19  | 4.71 | 1.00  | ..     | 45.90  |
| <i>1977-78</i>     |     |        |      |       |        |        |
| New . . . . .      | 101 | 66.43  | 5.49 | 5.50  | ..     | 77.42  |
| Existing . . . . . | 7   | 3.96   | 0.77 | 2.00  | ..     | 6.73   |
| Total . . . . .    | 107 | 59.77  | 1.29 | 2.00  | ..     | 63.06  |
| <i>1979-80</i>     |     |        |      |       |        |        |
| New . . . . .      | 119 | 52.59  | 0.43 | ..    | ..     | 53.02  |
| Existing . . . . . | 10  | 10.19  | ..   | 7.00  | ..     | 17.19  |
| Total . . . . .    | 129 | 62.78  | 0.43 | 7.00  | ..     | 70.21  |
| <i>1980-81</i>     |     |        |      |       |        |        |
| New . . . . .      | 186 | 64.24  | 0.72 | ..    | ..     | 64.96  |
| Existing . . . . . | 6   | 1.68   | 1.20 | ..    | 45.09  | 47.91  |
| Total . . . . .    | 192 | 65.92  | 1.92 | ..    | 45.09  | 112.93 |
| <i>1981-82</i>     |     |        |      |       |        |        |
| New . . . . .      | 305 | 194.09 | 1.88 | ..    | ..     | 195.97 |
| Existing . . . . . | 46  | 20.80  | 0.50 | 53.00 | 182.98 | 257.28 |
| Total . . . . .    | 351 | 214.89 | 2.38 | 53.00 | 182.98 | 453.25 |
| <i>1982-83</i>     |     |        |      |       |        |        |
| New . . . . .      | 531 | 203.29 | 1.77 | ..    | ..     | 205.06 |
| Existing . . . . . | 34  | 19.70  | ..   | 54.00 | 149.10 | 222.80 |
| Total . . . . .    | 565 | 222.99 | 1.77 | 54.00 | 149.10 | 427.86 |
| <i>1983-84</i>     |     |        |      |       |        |        |
| New . . . . .      | 749 | 295.78 | 1.05 | 3.70  | ..     | 300.53 |
| Existing . . . . . | 7   | 2.47   | ..   | 5.50  | ..     | 90.15  |
| Total . . . . .    | 756 | 298.25 | 1.05 | 9.20  | 13.71  | 322.21 |
| <i>1984-85*</i>    |     |        |      |       |        |        |
| New . . . . .      | 420 | 317.06 | 0.10 | ..    | 12.29  | 329.45 |
| Existing . . . . . | 5   | 3.50   | ..   | 34.30 | ..     | 37.80  |
| Total . . . . .    | 425 | 320.56 | 0.10 | 34.30 | 12.29  | 367.25 |

\*Provisional

Source : Stock Exchange Division, Ministry of Finance

**TABLE NO. 8**  
**Details of the Issues Subscribed or Undersubscribed by the Public**

| Details                                            | 1976-77 | 1977-78 | 1978-79 | 1979-80 | 1980-81 | 1981-82 | 1982-83 | 1983-84 |
|----------------------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| No. of Companies                                   | 94      | 114     | 111     | 127     | 192     | 351     | 565     | 756     |
| <b>Equity</b>                                      |         |         |         |         |         |         |         |         |
| (1) No. of Issues                                  | 87      | 112     | 110     | 126     | 187     | 311     | 543     | 742     |
| (2) Public offer (in crore Rs.)                    | 32.46   | 64.22   | 50.72   | 47.91   | 55.92   | 141.68  | 146.17  | 203.86  |
| (3) Public response (in crore Rs.)                 | 51.60   | 218.98  | 425.40  | 343.19  | 220.31  | 578.42  | 340.62  | 844.78  |
| (4) No. of times subscribed                        | 1.64    | 3.41    | 8.39    | 7.16    | 3.94    | 4.08    | 2.33    | 4.14    |
| (5) No. of Issues fully subscribed/over-subscribed | 54      | 58      | 85      | 110     | 165     | 286     | 491     | 706     |
| (6) No. of issues undersubscribed                  | 33      | 54      | 25      | 16      | 22      | 25      | 52      | 36      |
| (7) % of 6 to 1                                    | 38.3    | 51.8    | 22.7    | 12.7    | 11.8    | 8.0     | 9.6     | 4.9     |
| <b>Preference</b>                                  |         |         |         |         |         |         |         |         |
| (1) No. of Issues                                  | 23      | 23      | 4       | 2       | 8       | 2       | 2       | 2       |
| (2) Public offer (in crore Rs.)                    | 4.32    | 5.72    | 0.28    | 0.40    | 1.80    | 2.00    | 1.52    | 0.85    |
| (3) Public response (in crore Rs.)                 | 3.63    | 2.98    | 0.05    | 0.26    | 1.58    | 1.32    | 0.76    | 0.36    |
| (4) No. of times subscribed                        | 0.84    | 0.52    | 0.16    | 0.65    | 0.88    | 0.66    | 0.50    | 0.42    |
| (5) No. of issues fully subscribed                 | 8       | 8       | 1       | 1       | 5       | 1       | ..      | 1       |
| (6) No. of issues undersubscribed                  | 15      | 15      | 3       | 1       | 3       | 1       | 2       | 1       |
| (7) % of 6 to 1                                    | 65.2    | 65.2    | 75      | 50      | 37.5    | 50      | 100     | 50      |
| <b>Debentures</b>                                  |         |         |         |         |         |         |         |         |
| (1) No. of Issues                                  | 4       | 2       | 1       | 1       | 4       | 39      | 22      | 5       |
| (2) Public Offer (in crore Rs.)                    | 7.70    | 6.00    | 1.50    | 7.00    | 35.40   | 162.41  | 101.9   | 15.64   |
| (3) Public Response (in crore Rs.)                 | 9.16    | 3.84    | 1.61    | 39.95   | 263.88  | 690.49  | 314.03  | 84.01   |
| (4) No. of issues fully subscribed                 | 1.20    | 0.64    | 1.08    | 5.71    | 7.45    | 4.25    | 3.08    | 5.37    |
| (5) No. of issues fully subscribed/over-subscribed | 3       | ..      | 1       | 1       | 4       | 29      | 19      | 4       |
| (6) No. of issues undersubscribed                  | 1       | 2       | ..      | ..      | ..      | 10      | 3       | 1       |
| (7) % of 6 to 1                                    | 25      | 100     | ..      | ..      | ..      | 25.6    | 13.6    | 20      |
| <b>Equity + Preference + Debentures</b>            |         |         |         |         |         |         |         |         |
| No. of Issues                                      | 114     | 137     | 115     | 129     | 199     | 352     | 567     | 749     |
| Public offer (in crore Rs.)                        | 43.49   | 75.94   | 52.50   | 55.34   | 93.12   | 306.09  | 249.51  | 220.35  |
| Public response (in crore Rs.)                     | 64.39   | 225.80  | 427.06  | 383.40  | 485.76  | 1270.23 | 655.40  | 929.15  |
| No. of times subscribed                            | 1.50    | 2.97    | 8.13    | 6.93    | 5.23    | 4.15    | 2.63    | 4.22    |
| No. of Issues fully subscribed/over subscribed     | 65      | 66      | 87      | 112     | 174     | 316     | 510     | 711     |
| No. of issues undersubscribed                      | 49      | 71      | 28      | 17      | 25      | 36      | 57      | 38      |
| % of 6 to 1                                        | 43.0    | 51.8    | 24.3    | 13.2    | 12.6    | 10.2    | 10      | 5.1     |

Source : Stock Exchange Division, Ministry of Finance.



**TABLE NO. 9**  
**Frequency of Transactions in Equity Shares**

| Sl. No.                | Frequency of transactions | Group | Number of Companies |       |        |          | Total |
|------------------------|---------------------------|-------|---------------------|-------|--------|----------|-------|
|                        |                           |       | Bombay              | Delhi | Madras | Calcutta |       |
| 1. Daily               |                           | A     | 40                  | 4     | 2      | 12       | 58    |
|                        |                           | B     | 69                  | 10    | 6      | 64       | 149   |
| 2. Frequently          |                           | A     | 26                  | 3     | 15     | 13       | 57    |
|                        |                           | B     | 89                  | 28    | 11     | 162      | 290   |
| 3. Once in a week      |                           | A     | ..                  | 6     | 10     | 3        | 19    |
|                        |                           | B     | 167                 | 88    | 18     | 246      | 519   |
| 4. Once in a fortnight |                           | A     | ..                  | ..    | 2      | ..       | 2     |
|                        |                           | B     | 142                 | 40    | 38     | 174      | 394   |
| 5. Once in a month     |                           | ..    | 318                 | 176   | 148    | 312      | 954   |
| 6. Once in a year      |                           | ..    | 300                 | 262   | 165    | 232      | 959   |
| Total Listed Companies |                           |       | 1151                | 617   | 415    | 1218     | 3401  |

**TABLE NO. 10**  
**Activity in 'B' Group Securities**  
**Frequency Distribution of Securities according to % Days Traded**

| % of days traded           | No. of Securities | % to total |
|----------------------------|-------------------|------------|
| 91—100                     | 33                | 1.72       |
| 81—90                      | 206               | 10.71      |
| 71—80                      | 76                | 3.95       |
| 61—70                      | 52                | 2.71       |
| 51—60                      | 62                | 3.22       |
| 41—50                      | 55                | 2.86       |
| 31—40                      | 45                | 2.34       |
| 21—30                      | 78                | 4.06       |
| 11—20                      | 86                | 4.47       |
| 1—10                       | 301               | 15.65      |
| Not Traded                 | 929               | 48.31      |
| Total Number of Securities | 1923              | 100.00     |

Based on activity in June, July and August 1984.

**TABLE NO. 11**  
**Frequency Distribution of New Companies Listed on the Exchange according to Appreciation/Depreciation in Price as on 31-12-84**

| Appreciation/Depreciation in Price as on 31-12-1984 | New Companies listed during |      |      |      |      |      | Total |
|-----------------------------------------------------|-----------------------------|------|------|------|------|------|-------|
|                                                     | 1979                        | 1980 | 1981 | 1982 | 1983 | 1984 |       |
| Appreciation above 100%                             | 3                           | 2    | 2    | 4    | 1    | 7    | 19    |
| „ 75% — 100%                                        | ..                          | 2    | ..   | 2    | ..   | 4    | 8     |
| „ 50% — 75%                                         | 1                           | 1    | 2    | 2    | 2    | 2    | 8     |
| „ 25% — 50%                                         | 1                           | 3    | 3    | 2    | 3    | 9    | 21    |
| „ 10% — 25%                                         | ..                          | 3    | ..   | 2    | 3    | 5    | 13    |
| „ 0% — 10%                                          | 1                           | 6    | 5    | 3    | 6    | 8    | 29    |
| Depreciation 0% — 10%                               | ..                          | 2    | 4    | 1    | ..   | 2    | 9     |
| „ 10% — 25%                                         | 1                           | 4    | 5    | 7    | 1    | 13   | 31    |
| „ 25% — 50%                                         | 3                           | 5    | 5    | 6    | 6    | 14   | 39    |
| „ 50% — 75%                                         | 7                           | 10   | 21   | 18   | 30   | 25   | 111   |
| „ 75% and above                                     | ..                          | 1    | 4    | 7    | 22   | 22   | 56    |
| No quotation                                        | 12                          | 17   | 15   | 28   | 16   | 28   | 116   |
| Total :                                             | 29                          | 56   | 66   | 82   | 90   | 137  | 460   |

TABLE NO. 12  
Public Response to Capital Issues

Source : Company News and Note November 1981—Article by Shri Lall upto 1980-81 thereafter Annual Reports on the working and Administration of the Companies Act 1956.  
(Rs. Crores)

| Year    | Equity             |                       |                                     |                   | Preference            |                                     |                   |                       | Debentures                          |                    |                       |                                     |
|---------|--------------------|-----------------------|-------------------------------------|-------------------|-----------------------|-------------------------------------|-------------------|-----------------------|-------------------------------------|--------------------|-----------------------|-------------------------------------|
|         | Offered to public  | Subscribed by public  | Left un-subscribed                  | Offered to public | Subscribed by public  | Left un-subscribed                  | Offered to public | Subscribed by public  | Left un-subscribed                  | Offered to public  | Subscribed by public  | Left un-subscribed                  |
|         |                    |                       |                                     |                   |                       |                                     |                   |                       |                                     |                    |                       |                                     |
|         |                    | As invested by public | As part of under-writing obligation |                   | As invested by public | As part of under-writing obligation |                   | As invested by public | As part of under-writing obligation |                    | As invested by public | As part of under-writing obligation |
| 1971-72 | 21.7<br>(100.00)   | 20.0<br>(92.2)        | 0.2<br>(0.9)                        | 1.5<br>(6.9)      | 2.1<br>(30.4)         | 1.5<br>(21.7)                       | 3.2<br>(46.4)     | 0.1<br>(5.0)          | 1.2<br>(60.0)                       | 2.0<br>(100.00)    | 0.7<br>(35.0)         | 0.8<br>(12.1)                       |
| 1972-73 | 26.6<br>(100.00)   | 18.3<br>(68.8)        | 6.8<br>(25.6)                       | 1.4<br>(5.3)      | 1.2<br>(1.8)          | 1.7<br>(30.9)                       | 2.5<br>(45.5)     | 6.7<br>(37.2)         | 9.7<br>(53.9)                       | 18.0<br>(100.00)   | 1.6<br>(8.9)          | 0.8<br>(12.1)                       |
| 1973-74 | 38.0<br>(100.00)   | 31.8<br>(83.7)        | 1.9<br>(5.0)                        | 3.9<br>(10.3)     | 0.5<br>(7.4)          | 2.3<br>(33.8)                       | 4.0<br>(58.8)     | 2.6<br>(39.4)         | 1.7<br>(25.8)                       | 6.6<br>(100.00)    | 1.5<br>(22.7)         | 0.8<br>(12.1)                       |
| 1974-75 | 15.5<br>(100.00)   | 10.7<br>(69.0)        | 1.7<br>(11.0)                       | 3.1<br>(20.0)     | 0.5<br>(11.1)         | 3.1<br>(68.9)                       | 0.9<br>(70.0)     | 0.7<br>(46.6)         | 0.4<br>(26.7)                       | 1.5<br>(100.00)    | 0.4<br>(26.7)         | 0.8<br>(12.1)                       |
| 1975-76 | 48.3<br>(100.00)   | 28.2<br>(58.4)        | 12.6<br>(26.1)                      | 7.5<br>(16.5)     | 0.4<br>(5.1)          | 4.7<br>(59.5)                       | 2.8<br>(35.4)     | 0.2<br>(100.00)       | 0.2<br>(100.00)                     | 0.2<br>(100.00)    | 0.2<br>(100.00)       | 0.8<br>(12.1)                       |
| 1976-77 | 24.6<br>(100.00)   | 15.1<br>(61.4)        | 4.8<br>(19.1)                       | 4.3<br>(17.5)     | 0.4<br>(10.3)         | 2.3<br>(59.0)                       | 1.2<br>(30.7)     | 0.1<br>(5.0)          | 0.1<br>(5.0)                        | 0.1<br>(5.0)       | 0.1<br>(5.0)          | 0.8<br>(12.1)                       |
| 1977-78 | 54.4<br>(100.00)   | 30.7<br>(56.4)        | 3.9<br>(7.2)                        | 18.4<br>(33.8)    | 0.1<br>(3.6)          | 1.7<br>(60.7)                       | 1.0<br>(35.7)     | 0.1<br>(100.00)       | 0.1<br>(100.00)                     | 0.1<br>(100.00)    | 0.1<br>(100.00)       | 0.8<br>(12.1)                       |
| 1978-79 | 43.9<br>(100.00)   | 33.2<br>(75.6)        | 1.8<br>(4.1)                        | 8.8<br>(20.0)     | 1.1<br>(100.00)       | 0.1<br>(9.1)                        | 1.0<br>(90.9)     | 1.5<br>(100.00)       | 1.5<br>(100.00)                     | 1.5<br>(100.00)    | 1.5<br>(100.00)       | 0.8<br>(12.1)                       |
| 1979-80 | 41.1<br>(100.00)   | 33.9<br>(80.0)        | 3.8<br>(9.2)                        | 4.3<br>(10.5)     | 0.1<br>(0.3)          | 0.29<br>(100.00)                    | 0.2<br>(100.00)   | 7.0<br>(100.00)       | 7.0<br>(100.00)                     | 7.0<br>(100.00)    | 7.0<br>(100.00)       | 0.8<br>(12.1)                       |
| 1980-81 | 43.0<br>(100.00)   | 36.0<br>(83.7)        | 0.8<br>(1.9)                        | 6.0<br>(14.0)     | 0.2<br>(11.8)         | 1.3<br>(76.4)                       | 0.2<br>(11.8)     | 29.4<br>(100.00)      | 29.4<br>(100.00)                    | 29.4<br>(100.00)   | 29.4<br>(100.00)      | 0.8<br>(12.1)                       |
| 1981-82 | 131.42<br>(100.00) | 123.0<br>(93.5)       | 1.53<br>(1.27)                      | 7.05<br>(5.3)     | 0.53<br>(25.8)        | 1.51<br>(74.2)                      | 1.51<br>(74.2)    | 137.57<br>(81.6)      | 11.01<br>(6.57)                     | 168.51<br>(100.00) | 11.94<br>(11.9)       | 0.8<br>(12.1)                       |
| 1982-83 | 110.13<br>(100.00) | 87.55<br>(79.5)       | 0.77<br>(0.2)                       | 2.23<br>(20.3)    | 1.50<br>(100.00)      | 0.75<br>(50.0)                      | 0.75<br>(50.0)    | 68.98<br>(73.67)      | 12.2<br>(12.9)                      | 93.75<br>(100.00)  | 7.94<br>(8.57)        | 0.8<br>(12.1)                       |

TABLE NO. 13

**Source :** Reports on Currency and Finance, RBI.

**Source :** Reports on Currency and Finance, RBI.

TABLE NO. 14  
Cost of raising capital of Companies issuing capital

(Rs. lakhs)

|                           | Total Amount<br>Issued | Total Amt.<br>offered to<br>Public | Total Issue<br>Expenses | 3 as % of 1 | 3 as % of 2 |
|---------------------------|------------------------|------------------------------------|-------------------------|-------------|-------------|
|                           | (1)                    | (2)                                | (3)                     | (4)         | (5)         |
| <b>1970-71</b>            |                        |                                    |                         |             |             |
| New Public Ltd. Cos.      | 1776.9                 | 1222.2                             | 64.8                    | 3.6         | 5.3         |
| Existing Public Ltd. Cos. | 2449.2                 | 2108.2                             | 124.4                   | 5.1         | 5.9         |
| Total                     | 4226.1                 | 3330.4                             | 189.2                   | 4.5         | 5.7         |
| <b>1971-72</b>            |                        |                                    |                         |             |             |
| New Public Ltd. Cos.      | 2430.6                 | 2149.9                             | 123.0                   | 5.1         | 5.7         |
| Existing Public Ltd. Cos. | 1037.6                 | 875.3                              | 52.9                    | 5.1         | 6.0         |
| Total                     | 3468.2                 | 3025.2                             | 175.9                   | 5.1         | 5.8         |
| <b>1972-73</b>            |                        |                                    |                         |             |             |
| New Public Ltd. Cos.      | 1757.4                 | 1499.4                             | 103.6                   | 5.9         | 6.9         |
| Existing Public Ltd. Cos. | 3778.2                 | 3510.1                             | 188.2                   | 5.0         | 5.4         |
| Total                     | 5535.6                 | 5009.5                             | 291.8                   | 5.3         | 5.8         |
| <b>1973-74</b>            |                        |                                    |                         |             |             |
| New Public Ltd. Cos.      | 2895.62                | 2699.06                            | 222.06                  | 7.7         | 8.2         |
| Existing Public Ltd. Cos. | 3270.23                | 2448.99                            | 188.61                  | 5.8         | 7.7         |
| Total                     | 6165.85                | 5148.05                            | 410.67                  | 6.7         | 8.0         |
| <b>1974-75</b>            |                        |                                    |                         |             |             |
| New Public Ltd. Cos.      | 1079.32                | 1027.81                            | 97.66                   | 9.0         | 9.5         |
| Existing Public Ltd. Cos. | 1263.42                | 1121.31                            | 77.52                   | 6.1         | 6.9         |
| Total                     | 2342.74                | 2149.12                            | 175.18                  | 7.5         | 8.2         |
| <b>1975-76</b>            |                        |                                    |                         |             |             |
| New Public Ltd. Cos.      | 3576.46                | 3186.99                            | 229.99                  | 6.4         | 7.2         |
| Existing Public Ltd. Cos. | 2831.50                | 2452.01                            | 188.24                  | 6.6         | 7.7         |
| Total                     | 6407.96                | 5639.00                            | 418.23                  | 6.5         | 7.4         |
| <b>1976-77</b>            |                        |                                    |                         |             |             |
| New Public Ltd. Cos.      | 2149.67                | 1771.82                            | 136.05                  | 6.3         | 7.7         |
| Existing Public Ltd. Cos. | 1279.93                | 1083.53                            | 92.08                   | 7.2         | 8.5         |
| Total                     | 3429.60                | 2855.35                            | 228.13                  | 6.7         | 8.0         |
| <b>1977-78</b>            |                        |                                    |                         |             |             |
| New Public Ltd. Cos.      | 3946.97                | 2785.27                            | 208.25                  | 5.3         | 7.5         |
| Existing Public Ltd. Cos. | 3224.25                | 2929.97                            | 281.85                  | 8.7         | 9.6         |
| Total                     | 7171.22                | 5715.24                            | 490.10                  | 6.8         | 8.6         |
| <b>1978-79</b>            |                        |                                    |                         |             |             |
| New Public Ltd. Cos.      | 3646.44                | 2766.62                            | 208.10                  | 5.7         | 7.5         |
| Existing Public Ltd. Cos. | 2140.49                | 1883.32                            | 171.10                  | 8.0         | 9.1         |
| Total                     | 5786.93                | 4649.94                            | 379.20                  | 6.6         | 8.2         |
| <b>1979-80</b>            |                        |                                    |                         |             |             |
| New Public Ltd. Cos.      | 4140.09                | 3503.49                            | 333.34                  | 8.1         | 9.5         |
| Existing Public Ltd. Cos. | 2084.21                | 1332.05                            | 218.29                  | 10.5        | 16.4        |
| Total                     | 6224.30                | 4835.54                            | 551.63                  | 8.9         | 11.4        |
| <b>1980-81</b>            |                        |                                    |                         |             |             |
| New Public Ltd. Cos.      | 3226.63                | 2730.71                            | 181.96                  | 5.6         | 6.7         |
| Existing Public Ltd. Cos. | 6611.08                | 4679.58                            | 303.74                  | 4.6         | 6.5         |
| Total                     | 9837.71                | 7410.29                            | 485.70                  | 4.9         | 6.6         |
| <b>1981-82</b>            |                        |                                    |                         |             |             |
| New Public Ltd. Cos.      | 14389.26               | 9099.22                            | 781.33                  | 5.4         | 8.6         |
| Existing Public Ltd. Cos. | 27777.32               | 21098.69                           | 1761.35                 | 6.3         | 8.3         |
| Total                     | 42162.58               | 30197.91                           | 2542.68                 | 6.0         | 8.4         |
| <b>1982-83</b>            |                        |                                    |                         |             |             |
| New Public Ltd. Cos.      | 13571.00               | 8569.00                            | 746.00                  | 5.5         | 8.7         |
| Existing Public Ltd. Cos. | 21938.00               | 11320.00                           | 1468.00                 | 6.7         | 13.0        |
| Total                     | 35509.00               | 19889.00                           | 2214.00                 | 6.2         | 11.1        |

Source : Annual Reports on the Working &amp; Administration of the Companies Act, 1956.

**TABLE NO. 15**  
**Expenses of Equity issues by the New and Existing Companies**

(Rs. lakhs)

| Name of the Co. | Size of Issue | Expenses of Issue | % to Total Issue | Name of the Co. | Size of Issue | Expenses of Issue | % to Total Issue |
|-----------------|---------------|-------------------|------------------|-----------------|---------------|-------------------|------------------|
| A               | 69            | 9.80              | 14.21            | K               | 135*          | 5.84              | 4.33             |
| B               | 90            | 17.43             | 19.37            | L               | 138*          | 5.67              | 4.11             |
| C               | 92            | 31.57             | 34.32            | M               | 143           | 10.63             | 7.43             |
| D               | 104           | 18.50             | 17.79            | N               | 162*          | 8.03              | 4.96             |
| E               | 108           | 10.78             | 9.98             | O               | 162           | 14.02             | 8.65             |
| F               | 112.50        | 8.52              | 7.57             | P               | 165           | 22.91             | 13.88            |
| G               | 120           | 14.75             | 12.29            | Q               | 326           | 44.00             | 13.50            |
| H               | 122           | 23.08             | 18.92            | R               | 500           | 49.03             | 9.81             |
| I               | 125           | 17.40             | 13.92            | S               | 588           | 62.28             | 10.66            |
| J               | 126           | 28.94             | 22.97            |                 |               |                   |                  |

\*Issues by Spinning &amp; Weaving Mills

**Expenses of Non-Convertible debenture (Rights) issues by the Existing Companies**

(Rs. lakhs)

| Name of the Company | Size of the Issue | Expenses of Issue | % to Total Issue |
|---------------------|-------------------|-------------------|------------------|
| A . . . . .         | 500               | 21.33             | 4.27             |
| B . . . . .         | 680               | 28.70             | 4.22             |
| C . . . . .         | 700               | 18.75             | 2.68             |
| D . . . . .         | 3500              | 178.81            | 5.11             |
| E . . . . .         | 800               | 25.91             | 3.24*            |
| F . . . . .         | 400               | 13.45             | 3.36             |
| G . . . . .         | 5600              | 150.24            | 2.68             |
| H . . . . .         | 1750              | 37.33             | 2.13             |

\*Issue not widely dispersed

**Expenses of convertible debenture issues by the existing companies**

(Rs. lakhs)

| Name of the Company | Size of the Issue | Expenses of Issue | % to Total Issue |
|---------------------|-------------------|-------------------|------------------|
| A . . . . .         | 250               | 20.19             | 8.08*            |
| B . . . . .         | 450               | 32.39             | 7.20*            |
| C . . . . .         | 3000              | 106.74            | 3.56*            |

\*These are rights cum public issues and hence the overall issue costs are relatively lower.

TABLE NO. 16

Cost of underwriting commission and brokerage charges as percentage to gross of the Public Issue of industrial Securities

| Name of the Company                    | Underwriting and Brokerage (Rs. lakhs) | Gross Cost (Rs. lakhs) | % of underwriting & brokerage Gross Cost |
|----------------------------------------|----------------------------------------|------------------------|------------------------------------------|
| <b>I. Equity :</b>                     |                                        |                        |                                          |
| A . . . . .                            | 7.01                                   | 25.44                  | 27.56                                    |
| B . . . . .                            | 5.31                                   | 37.94                  | 13.99                                    |
| C . . . . .                            | 2.93                                   | 10.54                  | 27.80                                    |
| D . . . . .                            | 5.31                                   | 18.83                  | 28.20                                    |
| E . . . . .                            | 5.30                                   | 19.35                  | 27.39                                    |
| F . . . . .                            | 6.89                                   | 14.92                  | 46.18                                    |
| G . . . . .                            | 4.28                                   | 17.69                  | 24.19                                    |
| H . . . . .                            | 19.17                                  | 63.81                  | 30.04                                    |
| I . . . . .                            | 1.88                                   | 43.61                  | 4.31                                     |
| <b>II. Non-Convertible Debentures:</b> |                                        |                        |                                          |
| A . . . . .                            | 14.34                                  | 28.70                  | 49.97                                    |
| B . . . . .                            | 10.40                                  | 18.75                  | 54.47                                    |
| C . . . . .                            | 114.00                                 | 178.81                 | 63.75                                    |
| D . . . . .                            | 10.41                                  | 21.33                  | 48.80                                    |
| E . . . . .                            | 16.12                                  | 28.13                  | 57.31                                    |
| F . . . . .                            | 24.99                                  | 37.10                  | 67.36                                    |
| G . . . . .                            | 18.08                                  | 25.91                  | 69.78                                    |
| H . . . . .                            | 6.37                                   | 13.45                  | 47.36                                    |
| I . . . . .                            | 102.93                                 | 150.29                 | 68.49                                    |
| <b>III. Convertible Debentures:</b>    |                                        |                        |                                          |
| A . . . . .                            | 13.79                                  | 106.74                 | 12.92                                    |
| B . . . . .                            | 11.16                                  | 32.39                  | 34.46                                    |
| C . . . . .                            | 5.08                                   | 20.19                  | 25.16                                    |

TABLE NO. 17

Amount underwritten and subscribed by underwriters since 1970-71

(Rs. lakhs)

|                                                     | Equity and Preference            |                                 |                                    | Debentures                      |                                 |                                    |
|-----------------------------------------------------|----------------------------------|---------------------------------|------------------------------------|---------------------------------|---------------------------------|------------------------------------|
|                                                     | Amount underwritten              | Amount subscribed               |                                    | Amount underwritten             | Amount subscribed               |                                    |
|                                                     |                                  | As Investor                     | As part of underwriting obligation |                                 | As Investor                     | As part of underwriting obligation |
|                                                     | (1)                              | (2)                             | (3)                                | (4)                             | (5)                             | (6)                                |
| <i>1970-71</i>                                      |                                  |                                 |                                    |                                 |                                 |                                    |
| All India Dev. & Inv. Insts. . . . .                | 1375.5<br>(55.87)                | 319.6<br>(87.95)                | 478.3<br>(79.98)                   | 437.5<br>(74.15)                | 272.7<br>(85.57)                | 68.1<br>(65.29)                    |
| State level Insts. . . . .                          | 179.8<br>(7.3)                   | —                               | 94.8<br>(15.85)                    | ..                              | ..                              | ..                                 |
| Banks . . . . .                                     | 84.7<br>(3.44)                   | 1.0<br>(0.28)                   | 7.6<br>(1.27)                      | 55.0<br>(9.32)                  | ..                              | 25.7<br>(24.64)                    |
| General Insc. Cos. . . . .                          | 45.5<br>(1.85)                   | 28.4<br>(7.82)                  | 9.3<br>(1.56)                      | 51.0<br>(8.64)                  | 41.0<br>(12.86)                 | 9.5<br>(9.11)                      |
| Inv. Corpn. of India, Inv. Trust & others . . . . . | 62.0<br>(2.5)                    | 10.0<br>(2.75)                  | 2.1<br>(0.35)                      | ..                              | ..                              | ..                                 |
| Firms of brokers . . . . .                          | 714.3<br>(29.02)                 | 4.4<br>(1.21)                   | 5.9<br>(0.99)                      | 46.5<br>(7.88)                  | 5.0<br>(1.57)                   | 1.0<br>(0.96)                      |
| <b>TOTAL</b> . . . . .                              | <b>2461.8</b><br><b>(100.00)</b> | <b>363.4</b><br><b>(100.00)</b> | <b>598.0</b><br><b>(100.00)</b>    | <b>590.0</b><br><b>(100.00)</b> | <b>318.7</b><br><b>(100.00)</b> | <b>104.3</b><br><b>(100.00)</b>    |

|                                                     | (1)                        | (2)                       | (3)                       | (4)                       | (5)                       | (6)                      |
|-----------------------------------------------------|----------------------------|---------------------------|---------------------------|---------------------------|---------------------------|--------------------------|
| <b>1971-72</b>                                      |                            |                           |                           |                           |                           |                          |
| All India Dev. & Inv. Insts. . . . .                | 1604.4<br>(59.41)          | 132.0                     | 301.5<br>(64.31)          | 115.0<br>(69.70)          | 113.0<br>(100.00)         | ..                       |
| State level Insts. . . . .                          | 224.2<br>(8.30)            | 5.4                       | 118.4<br>(25.26)          | ..                        | ..                        | ..                       |
| Banks . . . . .                                     | 60.6<br>(2.24)             | ..                        | 10.6<br>(2.26)            | ..                        | ..                        | ..                       |
| General Insc. Cos. . . . .                          | 89.9<br>(3.33)             | 36.2                      | 7.7<br>(1.64)             | ..                        | ..                        | ..                       |
| Inv. Corpn. of India, Inv. Trust & others . . . . . | 5.0<br>(0.19)              | ..                        | ..                        | ..                        | ..                        | ..                       |
| Firms of brokers . . . . .                          | 713.6<br>(26.42)           | 0.4                       | 27.6<br>(5.89)            | 50.0<br>(30.30)           | ..                        | 49.4<br>(100.00)         |
| Govt. of Haryana . . . . .                          | 3.0<br>(0.11)              | ..                        | 3.00<br>(0.64)            | ..                        | ..                        | ..                       |
| <b>To L . . . . .</b>                               | <b>2700.7<br/>(100.00)</b> | <b>174.0<br/>(100.00)</b> | <b>468.8<br/>(100.00)</b> | <b>165.0<br/>(100.00)</b> | <b>113.0<br/>(100.00)</b> | <b>49.4<br/>(100.00)</b> |

|                                                     |                           |              |                          |                           |                          |                          |
|-----------------------------------------------------|---------------------------|--------------|--------------------------|---------------------------|--------------------------|--------------------------|
| <b>1972-73</b>                                      |                           |              |                          |                           |                          |                          |
| All India Dev. & Inv. Insts. . . . .                | 1263.7<br>(45.15)         | 551.5        | 248.8<br>(63.78)         | 1135.0<br>(63.06)         | 829.9<br>(85.96)         | 160.2<br>(99.44)         |
| State levels Insts. . . . .                         | 229.4<br>(8.20)           | 45.5         | 98.5<br>(25.25)          | ..                        | ..                       | ..                       |
| Banks . . . . .                                     | 158.70<br>(5.67)          | 91.1         | 10.5<br>(2.69)           | 25.0<br>(1.39)            | 25.0<br>(2.59)           | ..                       |
| General Insc. Cos. . . . .                          | 169.0<br>(6.04)           | 123.9        | 6.1<br>(1.56)            | 100.0<br>(5.56)           | 109.7<br>(11.36)         | ..                       |
| Inv. Corpn. of India, Inv. Trust & others . . . . . | 12.8<br>(0.46)            | 2.4          | ..                       | 57.0<br>(3.17)            | 0.9<br>(0.09)            | ..                       |
| Firms of brokers . . . . .                          | 965.6<br>(34.5)           | 30.7         | 26.2<br>(6.72)           | 483.0<br>(26.83)          | ..                       | 0.9<br>(0.56)            |
| <b>TOTAL . . . . .</b>                              | <b>2799.2<br/>(100.0)</b> | <b>845.1</b> | <b>390.1<br/>(100.0)</b> | <b>1800.0<br/>(100.0)</b> | <b>965.5<br/>(100.0)</b> | <b>161.1<br/>(100.0)</b> |

|                                                     |                            |               |                           |                           |                           |                          |
|-----------------------------------------------------|----------------------------|---------------|---------------------------|---------------------------|---------------------------|--------------------------|
| <b>1973-74</b>                                      |                            |               |                           |                           |                           |                          |
| All India Dev. & Inv. Insts. . . . .                | 1446.78<br>(33.91)         | 215.42        | 488.11<br>(61.81)         | 240.00<br>(52.00)         | 91.00<br>(55.79)          | 137.44<br>(92.77)        |
| State level Insts. . . . .                          | 337.25<br>(7.74)           | 11.20         | 181.20<br>(22.94)         | ..                        | ..                        | ..                       |
| Banks . . . . .                                     | 181.20<br>(4.16)           | 21.23         | 24.63<br>(3.12)           | 20.00<br>(4.43)           | 17.10<br>(10.48)          | ..                       |
| General Insc. Cos. . . . .                          | 218.93<br>(5.02)           | 155.92        | 33.46<br>(4.24)           | 60.00<br>(13.00)          | 55.00<br>(33.72)          | ..                       |
| Inv. Corpn. of India, Inv. Trust & others . . . . . | 53.92<br>(1.24)            | ..            | 0.73<br>(0.09)            | ..                        | ..                        | ..                       |
| Firms of brokers . . . . .                          | 2120.36<br>(48.65)         | 15.48         | 61.62<br>(7.8)            | 141.50<br>(30.66)         | ..                        | 10.71<br>(7.23)          |
| <b>TOTAL . . . . .</b>                              | <b>4358.44<br/>(100.0)</b> | <b>419.25</b> | <b>789.75<br/>(100.0)</b> | <b>461.50<br/>(100.0)</b> | <b>163.10<br/>(100.0)</b> | <b>148.1<br/>(100.0)</b> |

|                                                     | (1)                               | (2)                               | (3)                               | (4)                              | (5)                             | (6)                             |
|-----------------------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|----------------------------------|---------------------------------|---------------------------------|
| <b>1974-75</b>                                      |                                   |                                   |                                   |                                  |                                 |                                 |
| All India Dev. & Inv. Insts . . . . .               | 620.05<br>(33.63)                 | 294.04<br>(61.87)                 | 252.58<br>(62.22)                 | 50.00<br>(50.00)                 | 34.00<br>(100.00)               | 15.80<br>(34.02)                |
| State level Insts. . . . .                          | 114.50<br>(6.21)                  | 17.83<br>(3.75)                   | 46.25<br>(11.39)                  | ..                               | ..                              | ..                              |
| Banks . . . . .                                     | 139.00<br>(7.54)                  | 22.89<br>(4.82)                   | 45.53<br>(11.22)                  | 25.00<br>(25.00)                 | ..                              | 24.15<br>(51.99)                |
| General Insc. Cos. . . . .                          | 127.50<br>(6.92)                  | 135.47<br>(28.50)                 | 4.15<br>(1.02)                    | ..                               | ..                              | ..                              |
| Inv. Corpn. of India, Inv. Trust & Others           | 27.25<br>(1.48)                   | 0.58<br>(0.12)                    | ..                                | ..                               | ..                              | ..                              |
| Firms of brokers                                    | 815.32<br>(44.22)                 | 4.45<br>(0.94)                    | 57.43<br>(14.15)                  | 25.00<br>(25.00)                 | ..                              | 6.50<br>(13.99)                 |
| <b>TOTAL</b> . . . . .                              | <b>1843.62</b><br><b>(100.00)</b> | <b>475.26</b><br><b>(100.00)</b>  | <b>405.94</b><br><b>(100.00)</b>  | <b>100.00</b><br><b>(100.00)</b> | <b>34.00</b><br><b>(100.00)</b> | <b>46.45</b><br><b>(100.00)</b> |
| <b>1975-76</b>                                      |                                   |                                   |                                   |                                  |                                 |                                 |
| All India Dev. & Inv. Insts. . . . .                | 2245.13<br>(41.15)                | 927.03<br>(53.97)                 | 478.60<br>(46.10)                 | ..                               | ..                              | ..                              |
| State level Insts. . . . .                          | 387.73<br>(7.11)                  | 48.46<br>(2.81)                   | 205.56<br>(19.80)                 | ..                               | ..                              | ..                              |
| Banks . . . . .                                     | 743.14<br>(13.62)                 | 169.90<br>(9.86)                  | 127.83<br>(12.51)                 | ..                               | ..                              | ..                              |
| General Insc. Cos. . . . .                          | 723.90<br>(13.27)                 | 518.17<br>(30.07)                 | 28.14<br>(2.71)                   | ..                               | ..                              | ..                              |
| Inv. Corpn. of India, Inv. Trust & others . . . . . | 52.43<br>(0.96)                   | 8.80<br>(0.51)                    | 0.92<br>(0.09)                    | ..                               | ..                              | ..                              |
| Firms of brokers . . . . .                          | 1303.13<br>(23.89)                | 50.91<br>(2.95)                   | 195.14<br>(18.8)                  | 20.00<br>(100.00)                | ..                              | 20.00<br>(100.00)               |
| <b>TOTAL</b> . . . . .                              | <b>5455.46</b><br><b>(100.00)</b> | <b>1723.27</b><br><b>(100.00)</b> | <b>1038.19</b><br><b>(100.00)</b> | <b>20.00</b><br><b>(100.00)</b>  | <b>..</b>                       | <b>20.00</b><br><b>(100.00)</b> |
| <b>1976-77</b>                                      |                                   |                                   |                                   |                                  |                                 |                                 |
| All India Dev. & Inv. Insts. . . . .                | 923.68<br>(36.66)                 | 311.80<br>(44.16)                 | 242.75<br>(43.46)                 | ..                               | ..                              | ..                              |
| State level Insts. . . . .                          | 175.30<br>(6.96)                  | 15.86<br>(2.25)                   | 117.65<br>(21.06)                 | ..                               | ..                              | ..                              |
| Banks . . . . .                                     | 445.39<br>(17.68)                 | 56.77<br>(8.04)                   | 147.30<br>(26.37)                 | ..                               | ..                              | ..                              |
| General Insc. Cos. . . . .                          | 493.37<br>(19.58)                 | 315.45<br>(44.67)                 | 34.96<br>(6.26)                   | ..                               | ..                              | ..                              |
| Inv. Corpn. of India, Inv. Trust & others . . . . . | 20.75<br>(0.82)                   | 4.13<br>(0.58)                    | 0.70<br>(0.13)                    | ..                               | ..                              | ..                              |
| Firms of brokers . . . . .                          | 461.11<br>(18.3)                  | 2.11<br>(0.3)                     | 15.17<br>(2.72)                   | ..                               | ..                              | ..                              |
| <b>TOTAL</b> . . . . .                              | <b>2519.60</b><br><b>(100.00)</b> | <b>706.12</b><br><b>(100.00)</b>  | <b>558.53</b><br><b>(100.00)</b>  | <b>..</b>                        | <b>..</b>                       | <b>..</b>                       |
| <b>1977-78</b>                                      |                                   |                                   |                                   |                                  |                                 |                                 |
| All India Dev. & Inv. Insts. . . . .                | 2410.72<br>(45.57)                | 235.68<br>(41.91)                 | 1492.68<br>(77.08)                | ..                               | ..                              | ..                              |
| State level Insts. . . . .                          | 155.28<br>(2.94)                  | 7.51<br>(1.34)                    | 84.01<br>(4.34)                   | ..                               | ..                              | ..                              |
| Banks . . . . .                                     | 1052.16<br>(19.89)                | 126.87<br>(22.56)                 | 278.09<br>(14.36)                 | ..                               | ..                              | ..                              |
| General Insc. Cos. . . . .                          | 631.28<br>(11.93)                 | 186.86<br>(33.23)                 | 21.62<br>(1.12)                   | ..                               | ..                              | ..                              |
| Inv. Corpn. of India, Inv. Trust & others . . . . . | 87.15<br>(1.65)                   | 4.91<br>(0.87)                    | 6.59<br>(0.34)                    | ..                               | ..                              | ..                              |
| Firms of brokers . . . . .                          | 953.62<br>(18.03)                 | 0.50<br>(0.09)                    | 53.57<br>(2.77)                   | ..                               | ..                              | ..                              |
| <b>TOTAL</b> . . . . .                              | <b>5290.21</b><br><b>(100.00)</b> | <b>562.33</b><br><b>(100.00)</b>  | <b>1936.56</b><br><b>(100.00)</b> | <b>..</b>                        | <b>..</b>                       | <b>..</b>                       |



|                                                          | (1)                          | (2)                        | (3)                        | (4)                          | (5)                         | (6)                         |
|----------------------------------------------------------|------------------------------|----------------------------|----------------------------|------------------------------|-----------------------------|-----------------------------|
| <i>1978-79</i>                                           |                              |                            |                            |                              |                             |                             |
| All India Dev. & Inv. Insts. . . . .                     | 1758.76<br>(52.98)           | 135.38<br>(70.78)          | 720.00<br>(73.60)          | ..                           | ..                          | ..                          |
| State level Insts. . . . .                               | 186.86<br>(5.57)             | 25.91<br>(13.55)           | 106.40<br>(10.88)          | ..                           | ..                          | ..                          |
| Banks . . . . .                                          | 478.12<br>(14.24)            | 9.37<br>(4.90)             | 91.83<br>(9.39)            | ..                           | ..                          | ..                          |
| General Insc. Cos. . . . .                               | 168.50<br>(5.02)             | 10.47<br>(5.47)            | 41.66<br>(4.26)            | ..                           | ..                          | ..                          |
| Inv. Corpn. of India, Inv. Trust & Others . . . . .      | 23.20<br>(0.69)              | 0.04                       | 0.42                       | ..                           | ..                          | ..                          |
| Firms of brokers . . . . .                               | 742.21<br>(22.1)             | 10.11<br>(5.29)            | 17.99<br>(1.84)            | ..                           | ..                          | ..                          |
| <b>TOTAL . . . . .</b>                                   | <b>3357.65<br/>(100.00)</b>  | <b>101.28<br/>(100.00)</b> | <b>978.30<br/>(100.00)</b> | <b>..</b>                    | <b>..</b>                   | <b>..</b>                   |
| <i>1979-80*</i>                                          |                              |                            |                            |                              |                             |                             |
| All India Dev. & Inv. Insts. . . . .                     | 2068.63<br>(55.01)           | 391.05<br>(95.93)          | 368.31<br>(86.12)          | 25.00<br>(100.00)            | 24.00<br>(100.00)           | ..                          |
| State level Insts. . . . .                               | 53.60<br>(1.4)               | ..                         | 20.23<br>(4.73)            | ..                           | ..                          | ..                          |
| Banks . . . . .                                          | 612.10<br>(16.28)            | ..                         | 24.57<br>(5.75)            | ..                           | ..                          | ..                          |
| Inv. Corpn. of India, Inv. Trust (Pvt. Sector) . . . . . | 7.21<br>(0.2)                | ..                         | ..                         | ..                           | ..                          | ..                          |
| Firms of brokers . . . . .                               | 1018.97<br>(27.07)           | 16.61<br>(4.07)            | 14.55<br>(3.40)            | ..                           | ..                          | ..                          |
| <b>TOTAL . . . . .</b>                                   | <b>3760.51<br/>(100.00)</b>  | <b>407.66<br/>(100.00)</b> | <b>427.66<br/>(100.00)</b> | <b>25.00<br/>(100.00)</b>    | <b>24.00<br/>(100.00)</b>   | <b>..</b>                   |
| <i>1980-81*</i>                                          |                              |                            |                            |                              |                             |                             |
| All India Dev. & Inv. Insts. . . . .                     | 1959.83<br>(53.95)           | 206.74<br>(98.80)          | 537.41<br>(81.56)          | 400.00<br>(68.97)            | ..                          | 0.33<br>(100.00)            |
| State level Insts. . . . .                               | 76.00<br>(9.09)              | 2.47<br>(1.18)             | 22.68<br>(3.44)            | ..                           | ..                          | ..                          |
| Banks . . . . .                                          | 487.59<br>(13.42)            | ..                         | 15.01<br>(2.28)            | 2.50<br>(0.43)               | ..                          | ..                          |
| Inv. Corpn. of India, Inv. Trust & others . . . . .      | 5.00<br>(0.14)               | ..                         | ..                         | ..                           | ..                          | ..                          |
| Firms of brokers . . . . .                               | 1104.01<br>(30.39)           | 0.05                       | 83.80<br>(12.72)           | 177.50<br>(30.60)            | 0.02<br>(100.00)            | ..                          |
| <b>TOTAL . . . . .</b>                                   | <b>3632.43<br/>(100.00)</b>  | <b>209.46<br/>(100.00)</b> | <b>658.90<br/>(100.00)</b> | <b>580.00<br/>(100.00)</b>   | <b>0.02<br/>(100.00)</b>    | <b>0.33<br/>(100.00)</b>    |
| <i>1981-82*</i>                                          |                              |                            |                            |                              |                             |                             |
| All India Dev. & Inv. Insts. . . . .                     | 5436.10<br>(49.04)           | 144.59<br>(94.45)          | 805.22<br>(94.02)          | 5122.48<br>(34.03)           | 881.88<br>(80.08)           | 867.83<br>(43.53)           |
| Banks . . . . .                                          | 1363.20<br>(12.30)           | ..                         | 77.87<br>(0.92)            | 2161.44<br>(14.36)           | 69.98<br>(6.36)             | 927.52<br>(46.53)           |
| Inv. Corpn. of India, Inv. Trust (Pvt. Sector) . . . . . | 76.90                        | (1.27)                     | ..                         | 15.00                        | ..                          | (—)                         |
| State level Financial & Dev. Corpn. . . . .              | 64.65                        | —                          | 5.40                       | 25.00                        | —                           | (—)                         |
| Firms of brokers . . . . .                               | 4143.68<br>(37.38)           | 8.5<br>(5.55)              | 37.91<br>(4.43)            | 7729.16<br>(51.35)           | 149.30<br>(13.56)           | 198.23<br>(9.94)            |
| <b>TOTAL . . . . .</b>                                   | <b>11084.53<br/>(100.00)</b> | <b>153.09<br/>(100.00)</b> | <b>856.40<br/>(100.00)</b> | <b>15053.08<br/>(100.00)</b> | <b>1101.16<br/>(100.00)</b> | <b>1993.58<br/>(100.00)</b> |

\*Includes GIC and Assurance Companies

|                                                          | (1)                               | (2)                              | (3)                               | (4)                               | (5)                               | (6)                              |
|----------------------------------------------------------|-----------------------------------|----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|----------------------------------|
| <b>1982-83*</b>                                          |                                   |                                  |                                   |                                   |                                   |                                  |
| All India Dev. & Inv. Insts. . . . .                     | 4159.00<br>(53.51)                | 102.00<br>(100.00)               | 2077.00<br>(90.07)                | 2250.00<br>(26.48)                | 908.00<br>(74.67)                 | 395.00<br>(49.75)                |
| Banks . . . . .                                          | 739.00<br>(9.51)                  | ..                               | 61.00<br>(2.65)                   | 2324.00<br>(27.35)                | 307.00<br>(25.25)                 | 168.00<br>(21.16)                |
| Inv. Corpn. of India, Inv. Trust (Pvt. Sector) . . . . . | 3.00<br>(0.04)                    | ..                               | ..                                | 10.00<br>(0.12)                   | ..                                | ..                               |
| State level Financial & Indl. Dev. Corps. . . . .        | 46.00<br>(0.59)                   | ..                               | 21.00<br>(0.91)                   | 30.00<br>(0.35)                   | ..                                | ..                               |
| Firms of brokers . . . . .                               | 2825.00<br>(36.35)                | ..                               | 147.00<br>(6.37)                  | 3884.00<br>(45.70)                | 1.00<br>(0.08)                    | 231.00<br>(29.09)                |
| <b>TOTAL</b> . . . . .                                   | <b>7772.00</b><br><b>(100.00)</b> | <b>102.00</b><br><b>(10.000)</b> | <b>2306.00</b><br><b>(100.00)</b> | <b>8498.00</b><br><b>(100.00)</b> | <b>1216.00</b><br><b>(100.00)</b> | <b>794.00</b><br><b>(100.00)</b> |

Figures in brackets indicate percentage of the total of each column.

Source : Annual Reports on the Working and Administration of the Companies Act, 1956.

\*Includes GIC & Assurance Companies

**TABLE NO. 18**  
**Amount of issues underwritten and Subscribed by Banks since 1970-71**

|                                                                               | (Rs. Lakhs)          |                   |                             |                  |                  |
|-------------------------------------------------------------------------------|----------------------|-------------------|-----------------------------|------------------|------------------|
|                                                                               | Amount under-written | Amount Subscribed |                             | % of Col. 2 to 1 | % of Col. 3 to 1 |
|                                                                               | (1)                  | As Investor       | As Under-writing obligation | (4)              | (5)              |
| <b>1970-71</b>                                                                |                      |                   |                             |                  |                  |
| Equity & Preference . . . . .                                                 | 84.7                 | 1.0               | 7.6                         |                  |                  |
| Debentures . . . . .                                                          | 55.0                 |                   | 25.7                        |                  |                  |
|                                                                               | 139.7                | 1.0               | 33.3                        | 0.7              | 23.9             |
| Total underwriting of Equity, Preference & Debenture Share of banks . . . . . | 3051.8<br>(4.5)      |                   |                             |                  |                  |
| <b>1971-72</b>                                                                |                      |                   |                             |                  |                  |
| Equity & Preference . . . . .                                                 | 60.6                 | ..                | 10.6                        |                  |                  |
| Debentures . . . . .                                                          | ..                   | ..                | ..                          |                  |                  |
|                                                                               | 60.6                 |                   | 10.6                        |                  | 17.49            |
| Total underwriting of Equity, Preference & Debenture Share of banks . . . . . | 2865.7<br>(2.1)      |                   |                             |                  |                  |
| <b>1972-73</b>                                                                |                      |                   |                             |                  |                  |
| Equity & Preference . . . . .                                                 | 158.7                | 91.1              | 10.5                        |                  |                  |
| Debentures . . . . .                                                          | 25.0                 | 25.0              | ..                          |                  |                  |
|                                                                               | 183.7                | 116.1             | 10.5                        | 62.5             | 5.4              |
| Total underwriting of Equity, Preference & Debenture Share of banks . . . . . | 4599.1<br>(4.0)      |                   |                             |                  |                  |
| <b>1973-74</b>                                                                |                      |                   |                             |                  |                  |
| Equity & Preference . . . . .                                                 | 181.20               | 21.23             | 24.63                       |                  |                  |
| Debentures . . . . .                                                          | 20.00                | 17.10             | ..                          |                  |                  |
|                                                                               | 201.20               | 38.33             | 24.63                       | 19.0             | 12.2             |
| Total underwriting of Equity, Preference & Debenture Share of banks . . . . . | 4819.94<br>(4.17)    |                   |                             |                  |                  |
| <b>1974-75</b>                                                                |                      |                   |                             |                  |                  |
| Equity & Preference . . . . .                                                 | 139.0                | 22.89             | 45.53                       |                  |                  |
| Debentures . . . . .                                                          | 25.0                 | ..                | 24.15                       |                  |                  |
|                                                                               | 164.0                | 22.89             | 69.68                       | 13.96            | 42.49            |
| Total underwriting of Equity, Preference & Debenture Share of banks . . . . . | 1943.62<br>(8.4)     |                   |                             |                  |                  |

|                                                       | (1)     | (2)    | (3)    | (4)   | (5)   |
|-------------------------------------------------------|---------|--------|--------|-------|-------|
| <b>1975-76</b>                                        |         |        |        |       |       |
| Equity & Preference                                   | 743.14  | 169.90 | 129.83 |       |       |
| Debentures                                            | ..      | ..     | ..     |       |       |
|                                                       | 743.14  | 169.90 | 129.83 | 22.86 | 17.74 |
| Total underwriting of Equity, Preference & Debenture  | 5475.46 |        |        |       |       |
| Share of Banks                                        | (13.57) |        |        |       |       |
| <b>1976-77</b>                                        |         |        |        |       |       |
| Equity & Preference                                   | 445.39  | 56.77  | 147.30 |       |       |
| Debentures                                            | ..      | ..     | ..     |       |       |
|                                                       | 445.39  | 56.77  | 147.30 | 12.75 | 33.07 |
| Total underwriting of Equity, Preference & Debenture  | 2519.60 |        |        |       |       |
| Share of banks                                        | (17.68) |        |        |       |       |
| <b>1977-78</b>                                        |         |        |        |       |       |
| Equity & Preference                                   | 1052.16 | 126.87 | 278.09 |       |       |
| Debentures                                            | ..      | ..     | ..     |       |       |
|                                                       | 1052.16 | 126.87 | 278.09 | 12.06 | 26.43 |
| Total underwriting of Equity, Preference & Debenture  | 5290.21 |        |        |       |       |
| Share of banks                                        | (19.89) |        |        |       |       |
| <b>1978-79</b>                                        |         |        |        |       |       |
| Equity & Preference                                   | 478.12  | 9.37   | 91.83  |       |       |
| Debentures                                            | ..      | ..     | ..     |       |       |
|                                                       | 478.12  | 9.37   | 91.83  | 1.95  | 19.20 |
| Total underwriting of Equity, Preference & Debenture  | 3357.65 |        |        |       |       |
| Share of banks                                        | (14.23) |        |        |       |       |
| <b>1979-80</b>                                        |         |        |        |       |       |
| Equity & Preference                                   | 612.10  | ..     | 24.57  |       |       |
| Debentures                                            | ..      | ..     | ..     |       |       |
|                                                       | 612.10  | ..     | 24.57  | ..    | 4.00  |
| Total underwriting of Equity, Preference & Debentures | 3760.51 |        |        |       |       |
| Share of banks                                        | (16.3)  |        |        |       |       |
| <b>1980-81</b>                                        |         |        |        |       |       |
| Equity & Preference                                   | 487.59  | ..     | 15.01  |       |       |
| Debentures                                            | 2.50    | ..     | ..     |       |       |
| Total underwriting of Equity, Preference & Debenture  | 490.09  |        | 15.01  |       | 3.1   |
| Share of banks                                        | 4212.43 |        |        |       |       |
|                                                       | (11.6)  |        |        |       |       |
| <b>1981-82</b>                                        |         |        |        |       |       |
| Equity & Preference                                   | 1363.20 | ..     | 7.87   |       |       |
| Debentures                                            | 2161.44 | 69.98  | 927.52 |       |       |
|                                                       | 3524.64 | 69.98  | 935.39 | 2.0   | 26.5  |
| Total underwriting of Equity, Preference & Debentures | 16270.0 |        |        |       |       |
| Share of banks                                        | (18.8)  |        |        |       |       |
| <b>1982-83</b>                                        |         |        |        |       |       |
| Equity and Preference                                 | 739.0   | ..     | 61.0   |       |       |
| Debentures                                            | 2324.0  | 307.0  | 168.0  |       |       |
|                                                       | 3063.0  | 307.0  | 229.0  | 10.0  | 7.5   |
| Total underwriting of Eq. Pref. & Deb.                | 16270.0 |        |        |       |       |
| Share of banks                                        | (18.8)  |        |        |       |       |

Source : Annual Reports on Working and Administration of the Companies Act 1956.

TABLE No. 19

Amount of Issues underwritten and Subscribed by Brokers since 1970-71

(R s. lakhs)

| (1)                                                       | Amount underwritten<br>(2) | Amount Subscribed  |                                   | % of Col. 2 to 1<br>(5) | % of Col. 3 to 1<br>(6) |
|-----------------------------------------------------------|----------------------------|--------------------|-----------------------------------|-------------------------|-------------------------|
|                                                           |                            | As Investor<br>(3) | As underwriting obligation<br>(4) |                         |                         |
| <b>1970-71</b>                                            |                            |                    |                                   |                         |                         |
| Equity & Preference . . . . .                             | 714.3                      | 4.4                | 5.9                               |                         |                         |
| Debentures . . . . .                                      | 46.5                       | 5.0                | 1.0                               |                         |                         |
|                                                           | 760.8                      | 9.4                | 6.9                               | 1.2                     | 0.9                     |
| Total underwriting of Equity, Preference & Debentures . . | 3051.8                     |                    |                                   |                         |                         |
| Share of brokers . . . . .                                | (24.5)                     |                    |                                   |                         |                         |
| <b>1971-72</b>                                            |                            |                    |                                   |                         |                         |
| Equity & Preference . . . . .                             | 713.6                      | 0.4                | 27.6                              |                         |                         |
| Debentures . . . . .                                      | 50.0                       |                    | 49.4                              |                         |                         |
|                                                           | 763.6                      | 0.4                | 77.0                              | — *                     | 10.1                    |
| Total underwriting of Equity, Preference & Debentures . . | 2865.7                     |                    |                                   |                         |                         |
| Share of brokers . . . . .                                | (26.6)                     |                    |                                   |                         |                         |
| <b>1972-73</b>                                            |                            |                    |                                   |                         |                         |
| Equity & Preference . . . . .                             | 965.5                      | 30.7               | 26.2                              |                         |                         |
| Debentures . . . . .                                      | 483.0                      | ..                 | 0.9                               |                         |                         |
|                                                           | 1448.5                     | 30.7               | 27.1                              | 2.1                     | 1.9                     |
| Total underwriting of Equity, Preference & Debentures . . | 4599.1                     |                    |                                   |                         |                         |
| Share of brokers . . . . .                                | (31.5)                     |                    |                                   |                         |                         |
| <b>1973-74</b>                                            |                            |                    |                                   |                         |                         |
| Equity & Preference . . . . .                             | 2120.36                    | 15.48              | 61.62                             |                         |                         |
| Debentures . . . . .                                      | 141.50                     | ..                 | 10.71                             |                         |                         |
|                                                           | 2261.86                    | 15.48              | 72.33                             | 0.7                     | 3.2                     |
| Total underwriting of Equity, Preference & Debentures . . | 4819.94                    |                    |                                   |                         |                         |
| Share of brokers . . . . .                                | (46.9)                     |                    |                                   |                         |                         |
| <b>1974-75</b>                                            |                            |                    |                                   |                         |                         |
| Equity & Preference . . . . .                             | 815.32                     | 4.45               | 57.43                             |                         |                         |
| Debentures . . . . .                                      | 25.00                      | ..                 | 6.50                              |                         |                         |
|                                                           | 840.32                     | 4.45               | 63.93                             | 0.5                     | 7.6                     |
| Total underwriting of Equity, Preference & Debentures . . | 1943.62                    |                    |                                   |                         |                         |
| Share of brokers . . . . .                                | (43.2)                     |                    |                                   |                         |                         |
| <b>1975-76</b>                                            |                            |                    |                                   |                         |                         |
| Equity & Preference . . . . .                             | 1303.13                    | 50.91              | 195.14                            |                         |                         |
| Debentures . . . . .                                      | 20.00                      |                    | 20.00                             |                         |                         |
|                                                           | 1323.13                    | 50.91              | 215.14                            | 3.85                    | 16.25                   |
| Total underwriting of Equity, Preference & Debentures . . | 5475.46                    |                    |                                   |                         |                         |
| Share of brokers . . . . .                                | (24.16)                    |                    |                                   |                         |                         |

\*Negligible

| (1)                                                             | (2)      | (3)    | (4)    | (5)  | (6)  |
|-----------------------------------------------------------------|----------|--------|--------|------|------|
| <b>1976-77</b>                                                  |          |        |        |      |      |
| Equity & Preference . . . . .                                   | 461.11   | 2.11   | 15.17  |      |      |
| Debentures . . . . .                                            | ..       | ..     | ..     |      |      |
|                                                                 | 461.11   | 2.11   | 15.17  | 0.46 | 3.29 |
| Total underwriting of Equity, Preference & Debentures . . . . . | 2519.60  |        |        |      |      |
| Share of brokers . . . . .                                      | (18.30)  |        |        |      |      |
| <b>1978-79</b>                                                  |          |        |        |      |      |
| Equity & Preference . . . . .                                   | 742.21   | 10.11  | 17.99  |      |      |
| Debentures . . . . .                                            | ..       | ..     | ..     |      |      |
|                                                                 | 742.21   | 10.11  | 17.99  | 1.36 | 2.42 |
| Total underwriting of Equity, Preference & Debentures . . . . . | 3357.65  |        |        |      |      |
| Share of brokers . . . . .                                      | (22.10)  |        |        |      |      |
| <b>1979-80</b>                                                  |          |        |        |      |      |
| Equity & Preference . . . . .                                   | 1018.97  | 16.61  | 14.55  |      |      |
| Debentures . . . . .                                            | ..       | ..     | ..     |      |      |
|                                                                 | 1018.97  | 16.61  | 14.55  | 1.6  | 1.4  |
| Total underwriting of Equity, Preference & Debentures . . . . . | 3760.51  |        |        |      |      |
| Share of brokers . . . . .                                      | (27.1)   |        |        |      |      |
| <b>1980-81</b>                                                  |          |        |        |      |      |
| Equity & Preference . . . . .                                   | 1104.01  | 0.05   | 83.80  |      |      |
| Debentures . . . . .                                            | 177.50   | 0.02   | ..     |      |      |
|                                                                 | 1281.51  | 0.07   | 83.80  | ..*  | 6.5  |
| Total underwriting of Equity, Preference & Debentures . . . . . | 4212.43  |        |        |      |      |
| Share of brokers . . . . .                                      | (30.4)   |        |        |      |      |
| <b>1981-82</b>                                                  |          |        |        |      |      |
| Equity & Preference . . . . .                                   | 4143.68  | 8.50   | 37.91  |      |      |
| Debentures . . . . .                                            | 7729.16  | 149.30 | 198.23 |      |      |
|                                                                 | 11872.84 | 157.80 | 236.14 | 1.3  | 2.00 |
| Total underwriting of Eq. Pref. & Debentures . . . . .          | 26137.61 |        |        |      |      |
| Share of brokers . . . . .                                      | (45.4)   |        |        |      |      |
| <b>1982-83</b>                                                  |          |        |        |      |      |
| Equity & Preference . . . . .                                   | 2825.00  |        | 147.00 |      |      |
| Debentures . . . . .                                            | 3884.00  | 1.00   | 231.00 |      |      |
|                                                                 | 6709.00  | 1.00   | 378.00 | ..*  | 5.6  |
| Total underwriting of Eq. Pref. & Debentures . . . . .          | 16270.00 |        |        |      |      |
| Share of brokers . . . . .                                      | (41.2)   |        |        |      |      |

\*Negligible

Source : Annual Reports on Working &amp; Administration of the Companies Act, 1956.

TABLE NO. 20.  
Amount of Public Issues Underwritten By Various Underwriters since 1971

(Rs. lakhs)

| Year ended<br>March 31          | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982  | 1983  |
|---------------------------------|------|------|------|------|------|------|------|------|------|------|------|-------|-------|
| 1. Amount offered to the Public | 3330 | 3064 | 5010 | 5148 | 2149 | 5639 | 2855 | 5715 | 4650 | 4836 | 7410 | 30198 | 20538 |
| 2. Amount underwritten          | 3052 | 2904 | 4599 | 4920 | 1994 | 5475 | 2520 | 5290 | 3358 | 3761 | 4212 | 26135 | 16270 |
| % of 2 to 1                     | 91.7 | 94.8 | 91.8 | 95.6 | 92.8 | 97.1 | 88.3 | 92.6 | 72.2 | 77.8 | 56.8 | 86.5  | 79.2  |

Source : Reports on Currency and Finance, RBI.

TABLE NO. 21  
Amount of Issues Subscribed by the Public and By Underwriters as Investors Since 1971

(Rs. lakhs)

| Year ended<br>March 31          | 1971  | 1972  | 1973  | 1974  | 1975  | 1976  | 1977  | 1978  | 1979  | 1980  | 1981  | 1982  | 1983  |
|---------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 1. Amount offered to the public | 3330  | 3064  | 5010  | 5148  | 2149  | 5639  | 2855  | 5715  | 4650  | 4836  | 7410  | 30198 | 20538 |
| 2. Amount subscribed            | 2597  | 2512  | 4438  | 4087  | 1693  | 4580  | 2255  | 3639  | 3668  | 4397  | 6768  | 27347 | 16971 |
| % of 2 to 1                     | 77.99 | 81.98 | 88.58 | 79.39 | 78.78 | 81.22 | 78.98 | 63.67 | 78.88 | 90.92 | 91.34 | 90.56 | 82.63 |

Source : Compiled from Reports on Currency & Finance, RBI.

TABLE NO. 22  
Amount of Public Issues Devolving on Underwriters since 1971

(Rs. lakhs)

| Year ended<br>March 31                                                | 1971  | 1972  | 1973  | 1974  | 1975  | 1976  | 1977  | 1978  | 1979  | 1980  | 1981  | 1982  | 1983  |
|-----------------------------------------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 1. Amount underwritten                                                | 3052  | 2904  | 4599  | 4920  | 1994  | 5475  | 2520  | 5290  | 3358  | 3761  | 4212  | 26138 | 16270 |
| 2. Amount devolved on underwriters as part of underwriting obligation | 702   | 545   | 551   | 938   | 452   | 1058  | 559   | 1937  | 978   | 428   | 623   | 2850  | 3100  |
| % of 2 to 1                                                           | 23.00 | 18.76 | 11.98 | 19.07 | 22.67 | 19.32 | 22.18 | 36.62 | 29.12 | 11.38 | 14.79 | 10.90 | 19.05 |

Source : Reports on Currency and Finance, RBI.

TABLE NO. 23

## Pattern of Absorption of Private Capital Issues

(Rs. lakhs)

| Year ended March 31<br>Item                                   | 1971             | 1972             | 1973             | 1974             | 1975             | 1976             | 1977             | 1978             | 1979             | 1980             | 1981             | 1982              | 1983              |
|---------------------------------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|
| Number of Companies . . . . .                                 | 57               | 48               | 61               | 131              | 59               | 83               | 69               | 80               | 80               | 96               | 121              | 244               | 353               |
| Amount Issued . . . . .<br>(Eq., Pref. & Debs.)               | 42,26            | 35,11            | 55,36            | 61,66            | 23,43            | 64,08            | 34,30            | 71,71            | 57,87            | 62,24            | 98,38            | 421,63            | 356,00            |
| <b>I. Subscribed :</b>                                        | 8,96             | 4,47             | 5,26             | 10,18            | 1,94             | 7,69             | 5,75             | 14,56            | 11,37            | 13,89            | 24,27            | 119,65            | 140,23            |
| (i) By promoters, collabo-<br>rators, employees, etc. . . . . | 8,75*            | 3,25             | 4,18             | 5,98             | 1,42             | 5,79             | 4,40             | 10,32            | 9,41             | 10,68            | 22,11            | 103,09            | 131,12            |
| (iii) By Govt., Financial<br>Insts., & Insc. Cos. . . . .     | 21               | 1,22             | 1,08             | 4,20             | 52               | 1,90             | 1,35             | 4,24             | 1,96             | 3,21             | 2,16             | 16,26             | 9,11              |
| <b>II. Offered to Public . . . . .</b>                        | 33,30            | 30,64            | 50,10            | 51,48            | 21,49            | 56,39            | 28,55            | 57,15            | 46,50            | 48,36            | 74,10            | 301,98            | 205,38            |
| (i) Subscribed by public<br>other than underwriters           | 19,15<br>(57.50) | 22,18<br>(72.39) | 26,27<br>(52.43) | 35,00<br>(67.99) | 11,83<br>(55.09) | 28,56<br>(50.65) | 15,49<br>(54.26) | 30,77<br>(53.84) | 34,77<br>(75.00) | 39,89<br>(82.67) | 65,59<br>(88.52) | 260,93<br>(86.41) | 156,53<br>(76.21) |
| (ii) Subscribed by under-<br>writers :                        | 13,84            | 8,40             | 23,62            | 15,25            | 9,63             | 27,83            | 12,65            | 24,99            | 11,70            | 8,35             | 8,33             | 41,04             | 44,18             |
| (a) as investors . . . . .                                    | 6,82             | 2,94             | 18,11            | 5,87             | 5,10             | 17,24            | 7,06             | 5,62             | 1,91             | 4,08             | 2,09             | 12,54             | 13,18             |
| (b) as underwriting obli-<br>gation . . . . .                 | 7,02             | 5,45             | 5,51             | 9,38             | 4,52             | 10,58            | 5,59             | 19,37            | 9,78             | 4,28             | 6,23             | 28,50             | 31,00             |
| (iii) Unsubscribed . . . . .                                  | 31               | 6                | 21               | 1,23             | 3                | ..               | 42               | 1,39             | 4                | 11               | 19               | 1                 | 467               |
| <b>III. Amount underwritten :</b>                             | 30,52            | 29,04            | 45,99            | 49,20            | 19,94            | 54,75            | 25,20            | 52,90            | 33,58            | 37,61            | 42,12            | 261,38            | 162,70            |
| II(ii)b as % of III . . . . .                                 | (23)             | (18.76)          | (11.98)          | (19.07)          | (22.67)          | (19.32)          | (22.18)          | (36.62)          | (29.12)          | (11.38)          | (14.79)          | (10.90)           | (19.05)           |
| III as percentage of II . . . . .                             | (91.7)           | (94.8)           | (91.8)           | (95.6)           | (92.8)           | (97.1)           | (88.3)           | (92.6)           | (72.2)           | (77.8)           | (56.6)           | (86.6)            | (79.2)            |

\*Includes Rs. 3.33 Lakhs subscribed by  
Foreign Financial Institutions.

Source : Reports on Currency & Finance, RBI.

TABLE NO. 24  
Public Response to Capital Issues by Size Group—Percentage-wise

| Size Group                             | 1970-71 | 1971-72 | 1972-73 | 1973-74 | 1974-75 |
|----------------------------------------|---------|---------|---------|---------|---------|
| Below Rs. 25 lakhs . . . . .           | 50.0    | 58.2    | 70.0    | 81.3    | 66.8    |
| Rs. 25 lakhs to Rs. 50 lakhs . . . . . | 50.6    | 63.7    | —*      | 85.8    | 72.6    |
| Rs. 50 lakhs to Rs. 1 crore . . . . .  | 50.0    | 54.6    | —*      | 48.3    | 29.2    |
| Rs. 1 crore and above . . . . .        | 60.5    | 80.0    | 50.6    | 61.2    | 43.4    |

\*not available.

TABLE NO. 24 (Contd.)  
Public Response to Capital Issues by Size Group—Percentage wise

| Size Group                             | No. of<br>Cos. | Amt.<br>Sub-<br>scribed<br>by<br>public | Amt.<br>Sub-<br>scribed<br>by<br>under-<br>writers | Amt.<br>Un-<br>Sub-<br>scribed | No. of<br>Cos. | Amt.<br>Sub-<br>scribed<br>by<br>public | Amt.<br>Sub-<br>scribed<br>by<br>under-<br>writers | Amt.<br>Un-<br>Sub-<br>scribed | No. of<br>Cos. | Amt.<br>Sub-<br>scribed<br>by<br>public | Amt.<br>Sub-<br>scribed<br>by<br>under-<br>writers | Amt.<br>Un-<br>sub-<br>scribed |
|----------------------------------------|----------------|-----------------------------------------|----------------------------------------------------|--------------------------------|----------------|-----------------------------------------|----------------------------------------------------|--------------------------------|----------------|-----------------------------------------|----------------------------------------------------|--------------------------------|
|                                        | (1)            | (2)                                     | (3)                                                | (4)                            | (1)            | (2)                                     | (3)                                                | (4)                            | (1)            | (2)                                     | (3)                                                | (4)                            |
| <b>1975-76</b>                         |                |                                         |                                                    |                                |                |                                         |                                                    |                                |                |                                         |                                                    |                                |
| Below Rs. 25 lakhs . . . . .           | 35<br>(41.67)  | 50.76                                   | 49.24                                              | —                              | 31<br>(44.93)  | 53.91                                   | 42.77                                              | 3.32                           | 27<br>(34)     | 54.22                                   | 44.81                                              | 0.97                           |
| Rs. 25 lakhs to Rs. 50 lakhs . . . . . | 26<br>(30.95)  | 42.09                                   | 57.91                                              | —                              | 16<br>(23.19)  | 36.88                                   | 57.28                                              | 5.84                           | 16<br>(20)     | 35.98                                   | 63.82                                              | 0.2                            |
| Rs. 50 lakhs to Rs. 1 crore . . . . .  | 7<br>(8.3)     | 64.0                                    | 36.00                                              | —                              | 11<br>(15.94)  | 40.31                                   | 59.69                                              | —                              | 25<br>(31)     | 49.09                                   | 50.36                                              | 0.55                           |
| Rs. 1 crore and above . . . . .        | 16<br>(19.05)  | 50.89                                   | 49.11                                              | —                              | 11<br>(15.94)  | 68.92                                   | 31.08                                              | —                              | 12<br>(15)     | 59.15                                   | 36.90                                              | 3.95                           |
| Total . . . . .                        | 84<br>(100)    | 50.66                                   | 49.34                                              | —                              | 69<br>(100)    | 54.23                                   | 44.29                                              | 1.48                           | 80<br>(100)    | 53.85                                   | 43.72                                              | 2.43                           |
| <b>1976-77</b>                         |                |                                         |                                                    |                                |                |                                         |                                                    |                                |                |                                         |                                                    |                                |
| <b>1977-78</b>                         |                |                                         |                                                    |                                |                |                                         |                                                    |                                |                |                                         |                                                    |                                |
| <b>1978-79</b>                         |                |                                         |                                                    |                                |                |                                         |                                                    |                                |                |                                         |                                                    |                                |
| Below Rs. 25 lakhs . . . . .           | 33<br>(41)     | 75.71                                   | 19.34                                              | 4.95                           | 49<br>(51.04)  | 91.8                                    | 6.6                                                | 1.6                            | 78<br>(64.5)   | 94.4                                    | 3.6                                                | 2.0                            |
| Rs. 25 lakhs to Rs. 50 lakhs . . . . . | 21<br>(26)     | 65.6                                    | 34.54                                              | —                              | 18<br>(18.75)  | 83.9                                    | 16.1                                               | —                              | 15<br>(12.4)   | 66.1                                    | 33.9                                               | —                              |
| Rs. 50 lakhs to Rs. 1 crore . . . . .  | 16<br>(20)     | 53.04                                   | 46.96                                              | —                              | 20<br>(20.8)   | 81.5                                    | 18.5                                               | —                              | 17<br>(14.04)  | 79.0                                    | 21.0                                               | —                              |
| Rs. 1 crore and above . . . . .        | 10<br>(13)     | 88.44                                   | 11.56                                              | —                              | 9<br>(9.4)     | 79.7                                    | 20.3                                               | —                              | 11<br>(9.09)   | 92.3                                    | 7.7                                                | —                              |
| Total . . . . .                        | 80<br>(100)    | 74.76                                   | 25.15                                              | 0.09                           | 96<br>(100)    | —                                       | —                                                  | —                              | 121<br>(100)   | —                                       | —                                                  | —                              |
| <b>1979-80</b>                         |                |                                         |                                                    |                                |                |                                         |                                                    |                                |                |                                         |                                                    |                                |
| <b>1080-81</b>                         |                |                                         |                                                    |                                |                |                                         |                                                    |                                |                |                                         |                                                    |                                |
| <b>1981-82</b>                         |                |                                         |                                                    |                                |                |                                         |                                                    |                                |                |                                         |                                                    |                                |
| Below Rs. 25 lakhs . . . . .           | 134<br>(54.9)  | 98.1                                    | 1.9                                                | —                              | 258<br>(73.08) | 100.00                                  | —                                                  | —                              |                |                                         |                                                    |                                |
| Rs. 5 lakhs to Rs. 50 lakhs . . . . .  | 22<br>(9.02)   | 97.4                                    | 2.6                                                | —                              | 21<br>(5.9)    | 81.5                                    | 18.5                                               | —                              |                |                                         |                                                    |                                |
| Rs. 50 lakhs to Rs. 1 crore . . . . .  | 26<br>(10.66)  | 88.1                                    | 11.9                                               | —                              | 25<br>(7.08)   | 72.8                                    | 27.2                                               | —                              |                |                                         |                                                    |                                |
| Rs. 1 crore and above . . . . .        | 62<br>(25.4)   | 85.1                                    | 14.9                                               | —                              | 49<br>(13.9)   | 70.2                                    | 26.5                                               | 3.3                            |                |                                         |                                                    |                                |
| Total . . . . .                        | 244<br>(100)   | —                                       | —                                                  | —                              | 353<br>(100)   | 76.2                                    | 21.5                                               | 2.3                            |                |                                         |                                                    |                                |
| <b>1982-83</b>                         |                |                                         |                                                    |                                |                |                                         |                                                    |                                |                |                                         |                                                    |                                |

Source : Annual Reports on Working and Administration of Companies Act, 1956.



TABLE NO. 25

Number of Application Forms Printed, Distributed and Number of Applications Received by the Companies

| Company | No. of application forms printed & distributed | No. of application forms received by the company | % of (2) to (1) |
|---------|------------------------------------------------|--------------------------------------------------|-----------------|
| (1)     | (2)                                            | (3)                                              | (4)             |
| 1.      | 32,00,000                                      | 25,597                                           | 0.79            |
| 2.      | 33,00,000                                      | 22,301                                           | 0.68            |
| 3.      | 20,00,000                                      | 88,920                                           | 4.45            |
| 4.      | 21,00,000                                      | 23,123                                           | 1.10            |
| 5.      | 15,00,000                                      | 47,636                                           | 3.18            |
| 6.      | 14,00,000                                      | 12,649                                           | 0.90            |
| 7.      | 90,00,000                                      | 3,45,078                                         | 3.83            |
| 8.      | 32,00,000                                      | 66,121                                           | 2.07            |
| 9.      | 14,00,000                                      | 26,612                                           | 1.47            |
| 10.     | 5,78,000                                       | 4,866                                            | 0.84            |
| 11.     | 33,00,000(approx.)                             | 16,000                                           | 0.48            |



TABLE NO. 26

## Basis of Allotment in Issues Oversubscribed

|     | Amount of Issue<br>(Rs. lakhs) | Times oversubscribed | No. of Shares              | Basis of<br>allotment      |
|-----|--------------------------------|----------------------|----------------------------|----------------------------|
| 1.  | 195                            | 27                   | 5 — 5<br>10 — 5<br>15—25—5 | 1 : 20<br>1 : 11<br>2 : 13 |
| 2.  | 63                             | 24                   | 50<br>100<br>150           | 1 : 14<br>3 : 25<br>1 : 8  |
| 3.  | 85                             | 18                   | 50<br>100—150<br>200—550   | 1 : 8<br>1 : 7<br>2 : 11   |
| 4.  | 218                            | 16                   | upto 150                   | 3 : 20                     |
| 5.  | 38.25                          | 55                   | 50<br>100                  | 1 : 16<br>1 : 11           |
| 6.  | 86                             | 25                   | 50<br>100                  | 1 : 8<br>1 : 5             |
| 7.  | 75                             | 28                   | 50<br>100                  | 1 : 24<br>1 : 13           |
| 8.  | 40                             | 24                   | 50<br>100—200              | 1 : 8                      |
| 9.  | 10                             | 12                   | 50<br>100                  | 1 : 8<br>1 : 5             |
| 10. | 82                             | 34                   | 50<br>100                  | 1 : 20<br>1 : 12           |
| 11. | 44                             | 19                   | 50<br>100                  | 1 : 16<br>1 : 8            |
| 12. | 57                             | 37                   | 50<br>100                  | 1 : 19<br>1 : 17           |
| 13. | 126                            | 45                   | 50<br>100<br>150           | 1 : 30<br>1 : 12<br>1 : 14 |
| 14. | 20                             | 26                   | 50<br>100<br>150           | 1 : 20<br>1 : 12<br>1 : 9  |
| 15. | 60                             | 28                   | 50<br>100<br>150           | 1 : 21<br>1 : 12<br>3 : 25 |

**VOLUME : III**  
**REPORT OF THE SUB-COMMITTEE ON THE**  
**RULES, BYE-LAWS AND REGULATIONS OF**  
**THE STOCK EXCHANGES**

**BYE-LAWS  
AND  
REGULATIONS  
OF  
STOCK EXCHANGES  
1985**



## PREFACE

The Committee had, as stated in Chapter 1, appointed a Sub-Committee to have a comprehensive review of the existing Rules, Bye-laws and Regulations governing the Stock Exchanges and to suggest necessary amendments thereto to bring them up-to-date so that the trading activities on the Stock Exchanges are regulated and controlled more effectively to ensure healthy functioning of the Stock Exchanges in the country.

The Rules, Bye-laws and Regulations, as amended by the said Sub-Committee, are placed below. It may, however, be clarified that the Committee has not gone into the details of the recommended amendments firstly, because these amendments have been recommended by an experienced and competent group of persons selected by it and secondly because the Committee itself has made a number of recommendations to the Government to ensure healthy functioning of the Stock Exchanges. These recommendations of the Committee, if accepted by the Government, would themselves necessitate not only further amendments

to the provisions of the Companies Act, 1956 and those of the Securities Contracts (Regulation) Act, 1956 but also to the Rules, Bye-laws and Regulations framed thereunder.

An illustrative list, though by no means exhaustive one, of the proposed recommendations of the Committee necessitating changes in legislation, which has been earlier given in Section VIII of Chapter 12 in Volume I of the Report is also attached herewith for easy reference.

It may be mentioned that the Sub-Committee, as it consisted of outside members also, was not advised of the proposed recommendations of the Committee.

In view of what is stated above, it has to be borne in mind that the Rules, Bye-laws and Regulations as revised by the Sub-Committee will have to be further modified, amended or replaced in the light of the recommendations of the Committee, which may be ultimately accepted by the Government.



**AMENDMENTS PROPOSED TO THE SECURITIES CONTRACTS (REGULATION) ACT, 1956  
AND THE SECURITIES CONTRACTS (REGULATION) RULES, 1957**

Pages 1 and 22

Paras 3.18 to 3.20

Either by a separate legislation or amendment to the Securities Contracts (Regulation) Act, 1956 the activities of all others associated with the Stock Exchange, directly or indirectly, have to be statutorily regulated. This has particular reference to merchant bankers, issue houses, managing brokers, bankers to the issue of securities and Registrars to the public issues, etc. i.e. all those who are involved, directly or indirectly, in the public issues of securities by joint stock companies.

2. Page 22

Para 3.22

Section 3(j) of the Securities Contracts (Regulation) Act, 1956 should be amended to enable the Government to change the organisation form of Stock Exchanges which are presently associations of persons or companies limited by shares so that all the Stock Exchanges have an uniform organisational structure as companies limited by guarantee.

3. Page 24

Para 3.40

Securities Contracts (Regulation) Act, 1956 to be amended vesting the Governing Bodies of Stock Exchanges with adequate powers and authority to institute civil and criminal proceedings against members and non-members for breach or violation of any of the provisions of the Securities Contracts (Regulation) Act, 1956, Rules, Bye-laws and Regulations of the Stock Exchanges and directives issued by the Government or the Stock Exchange authorities or the Council for Securities Industry.

4. Page 24

Para 3.40

To re-cast and re-organise the Governing Bodies of the Stock Exchanges, both Securities Contracts (Regulation) Act, 1956 and Securities Contracts (Regulation) Rules, 1957 to be amended.

5. Page 27

Para 3.51

Council for Securities Industry should be established by legislation.

6. Page 33 and 34

Para 4.44

Securities Contracts (Regulation) Act, 1956 to be amended to provide that only 50 per cent of the admission fee and value of membership cards/shares should be paid to the nominees/heirs of the deceased members or to the resigning members, as the case may be as compensation or goodwill to the outgoing members upon the surrender of the membership of the Exchange. This provision should also be extended to the existing members by an appropriate amendment to the Securities Contracts (Regulation) Act, 1956 and the Rules framed thereunder.

7. Page 34

Para 4.45

Securities Contracts (Regulation) Act/Securities Contracts (Regulation) Rules to be amended to provide for termination of dormant members.

8. Page 35

Para 4.51

Securities Contracts (Regulation) Act, 1956 to be amended permitting the Stock Exchanges to open branch offices at different places in the country excluding centres where minor Stock Exchanges are situated.

9. Page 34 and 35

Para 4.50

To allow multiple membership of Stock Exchanges, Securities Contracts (Regulation) Act, 1956 may be amended.

10. Page 36

Para 4.56

Bye-laws and Regulations and the constitution relating to the organisation of the Stock Exchanges should be suitably amended to provide for increase in the membership of the Stock Exchanges. Securities Contracts (Regulation) Act, 1956 should also be amended vesting the Government with suitable specific powers to direct Stock Exchanges to increase their membership.

11. Page 37

Para 4.66

Securities Contracts (Regulation) Act, 1956 and the Bye-laws and Regulations to be amended for the enrolment, eligibility criteria, precise functions, duties and responsibilities of the authorised assistants/clerks of members and for holding the members of Stock Exchanges under whom they work, responsible for all the transactions concluded by the authorised assistants/clerks in the market either on behalf of the members or on their own account.

12. Page 41

Para 5.4

Companies Act, 1956 and the Securities Contracts (Regulation) Act, 1956 to be amended to provide for invoking the powers under Section 21 of the Securities Contracts (Regulation) Act, 1956 for securing compulsory listing of all :

- (i) Companies which raise term loans/debentures from financial institutions excluding foreign currency or raise resources by issuing debentures of Rs. 3 crores and aggregate from the financial
- (ii) Companies having a net worth Rs. 1 crore and which have (before tax) in at least three the last five years.

Such companies should be statutorily required to list the shares/debentures on the Stock Exchange to ensure that their functioning is subject to Stock Exchange listing requirements.

## 13. Page 42

Para 5.7

Securities Contracts (Regulation) Act, 1956 to be amended to provide for dealing with any violations of the provisions of the listing agreements by listed companies which will be deemed as offences punishable by Stock Exchanges by levy of fine or by instituting suitable proceedings in a Court of law.

## 14. Page 44

Para 5.24

Rule 19(2)(b) of the Securities Contracts (Regulation) Rules, 1957 to be amended to provide for power of relaxation under this rule to be vested with the regional Stock Exchanges; and once the regional Stock Exchange gives the relaxation, such relaxation should be applicable for listing on other Stock Exchanges and no separate and individual relaxation should be necessary for listing on other Stock Exchanges.

## 15. Page 80

Para 7.106

Securities Contracts (Regulation) Act, 1956 to be amended suitably to prevent unhealthy practices including kerb trading insider trading, etc. which would be treated as civil and criminal offences and enabling the Stock Exchange authorities to suspend/expell/warn off members who indulge in them apart from imposing heavy fines.

## 16. Pages 80 &amp; 109

Paras 7.107 &amp; 10.68

Listed companies should be required to publish unaudited half-yearly working results and if their capital is Rs. 10 crores or more, they should publish the same on a quarterly basis. This responsibility should be statutorily fixed on companies under the Companies Act, 1956 and the Securities Contracts (Regulation) Act, 1956.

## 17. Page 80

Para 7.106

Securities Contracts (Regulation) Act, 1956 should be amended to make manipulations, false trading, market rigging, spreading of false rumours and insider trading, etc. as civil and criminal offences and to enable the Stock Exchanges to take suitable action in the matter.

## 18. Page 80

Para 7.108

Securities Contracts (Regulation) Act, 1956 should be amended for prohibiting and banning in-

Para 8.22

attracts (Regulation) Act, 1956 and regulations should be amended to make contract notes by the members to the clients compulsory. These contract notes should be for the securities and also the brokerage separately.

## 20. Page 92

Para 9.10

Securities Contracts (Regulation) Act, 1956 and the Bye-laws and Regulations should be amended to make it obligatory on the part of members and the clients to observe their respective Codes of Conduct.

## 21. Page 93

Para 9.18

Securities Contracts (Regulation) Act, 1956 to be amended to provide for insurance covers to be taken out by members protecting them from several hazards and risk involved in securities business.

## 22. Page 101

Para 10.8

Securities Contracts (Regulation) Act, 1956 and Bye-laws and Regulations to be amended to prohibit members from matching transactions of their clients in their offices and to ensure that all orders of clients are executed on the floor of the Exchange.

### AMENDMENTS PROPOSED TO THE COMPANIES ACT, 1956, INCOME TAX ACT, 1961 AND OTHER ACTS

## 1. Page 41

Para 5.4

Companies Act, 1956 and the Securities Contracts (Regulation) Act, 1956 to be amended to provide for invoking the powers under Section 21 of the Securities Contracts (Regulation) Act, 1956 for securing compulsory listing of all :

- (i) Companies which raise term loans/debentures from the financial institutions excluding foreign currency or raise resources by issue of shares/debentures of Rs. 3 crores and more in the aggregate from the financial institutions.
- (ii) Companies having a network of more than Rs. 1 crore and which have made profits (before tax) in atleast three years out of the last five years.

Such companies should be statutorily required to list the shares/debentures of the Stock Exchange to ensure that their functioning is subject to Stock Exchange listing requirements.

## 2. Page 44

Para 5.21

Section 73 of the Companies Act, 1956 to be amended empowering the regional Stock Exchanges to extend the maximum time limit of ten weeks from the date of closure of subscription list prescribed under this Section, for the securities of the companies to be admitted for dealings on the Exchange. This power may be vested with the regional Stock Exchanges for extending such periods in suitable cases on merits.

## 3. Page 50

Para 6.33

Section 64 of the Companies Act, 1956 to be amended to exempt its application to cases of companies whose shares/debentures are initially subscribed for by the financial institutions and are subsequently offered for sale to the public by the financial institutions. Any public offer for sale of shares/debentures made by the financial institutions later, if they satisfy other listing requirements, should be saved from the application of Section 64 of the Companies Act, 1956.

## 4. Pages 53 &amp; 54

## Paras 6.51 &amp; 6.52

Distribution of composite application forms by companies in respect of public issues of shares/debentures should be permitted together with a perforated annexure furnishing the main highlights of the projects at a glance. Section 56 of the Companies Act, 1956 to be suitably amended to provide for this.

## 5. Page 58

## Para 6.72

Sections 69 and 73 of the Companies Act, 1956 to be amended to enable the investors subscribing to public issues of securities to pay the application monies through 'Security Cheques'. This would save time and trouble for companies and facilitate faster refund of application monies in the case of non-allottees.

## 6. Page 59

## Para 6.76

Central Board of Direct Taxes should be requested to make suitable provisions in the Income tax Act, 1961 to ensure that companies coming out with public issue of securities do not exceed the overall ceilings recommended by the Committee. All such excess expenditure incurred by the company should not be allowed as expenses for purposes of taxation under the Income tax Act, 1961.

## 7. Pages 80 &amp; 109

## Paras 7.107 &amp; 10.68

Listed companies should be required to publish unaudited half-yearly working results and if their capital is Rs. 10 crores or more, they should publish the same on a quarterly basis. This responsibility should be statutorily fixed on companies under the Companies Act, 1956 and the Securities Contracts (Regulation) Act, 1956.

## 8. Page 85

## Para 7.131

Capital Gains tax provisions to be amended to exempt capital gains from sale of industrial securities if such gains are re-invested within a period of one year in any listed securities. Also the minimum holding period of securities for purposes of capital gains should be reduced from the present three years to one year for purposes of counting long term capital gains in case of industrial securities.

## 9. Page 106

## Para 10.49(1)

Section 108 of the Companies Act, 1956 to be amended to fix the period of validity of transfer forms at two months from the date of stamping by the prescribed authority or at one month after the date of re-opening of the Register of Members after closure for the first time subsequent to the date of stamping, whichever is later.

## 10. Page 106

## Para 10.49(2)

Companies Act, 1956 to be amended to increase the number of days of notice to be given to the Stock Exchange for purposes of closure of Register of Members from the present 7 days to 30 days. Consequential changes to Section 154 of the Companies Act, 1956 should also be made.

75 Finance/85—37.

## 11. Page 107

## Para 10.49(5)

Companies Act, 1956 to be amended to make it obligatory on the part of public companies to accept signatures of the sellers on the transfer deeds, if duly attested by the bank officials of the rank of Branch Managers and above, Gazetted Officers, Honorary Presidency Magistrate, Notary Public and the Managing Director of Stock Exchange, under their seal.

## 12. Page 107

## Para 10.51

Companies Act, 1956 to be amended for making companies to maintain separate registers in respect of transfers lodged with the company before the closure of Register of Members and found to be defective for any reason to ensure that all the benefits in respect of rights, dividends, bonus, etc. pertaining to these shares to be frozen and held in trust and paid to the purchaser in due time.

## 13. Page 107

## Para 10.52

Companies Act, 1956 to be amended providing for the extension of period of acceptance of share certificates and duly executed transfer deeds beyond the last date of closure of Register of Members. This should be applicable to cases of delay in lodging to all documents relating to the transfer due to causes connected with post, by the actual period of delay, provided the documents are posted by registered post before the closure of Register of Members. Section 108 of the Companies Act, 1956 to be suitably modified to provide for this.

## 14. Page 107

## Para 10.56

Common policy in respect of fixation of stamp duty should be followed by all the States in India. Stamp duty on transfer of shares should be reduced to 25 paise for every Rs. 100 or part thereof of the market value and consideration amount. Stamp duty on transfer of debentures should also be fixed uniformly in all States in India at 25 paise for every Rs. 100 or part thereof of the market value or consideration amount. Suitable amendments may be made to the relevant Acts.

### AMENDMENTS PROPOSED TO THE RULES, BYE-LAWS AND REGULATIONS OF THE STOCK EXCHANGES

## 1. Page 24

## Para 3.40

To re-cast and re-organise the Governing Bodies of the Stock Exchanges, the Rules, Byelaws and Regulations should be amended.

## 2. Pages 32 &amp; 111

## Paras 4.34 &amp; 10.80

To allow members of Stock Exchanges to advertise within the framework of guidelines, Byelaws and Regulations may be suitably amended.

## 3. Page 35

## Para 4.53

Byelaws and Regulations should be amended to lay down clearly and specifically that orders of clients on the books of stockbrokers should be executed before any order on account of the stockbroker himself or on account of his partner, director or employee is executed.



## 4. Page 36

## Para 4.56

Byelaws and Regulations and the constitution relating to the organisation of the Stock Exchanges should be suitably amended to provide for increase in the membership of the Stock Exchanges. Securities Contracts (Regulation) Act, 1956 should also be amended vesting the Government with suitable specific powers to direct Stock Exchanges to increase their membership.

## 5. Page 36

## Para 4.62

Suitable Rules should be framed to create a class of "specialists".

## 6. Page 37

## Para 4.66

Securities Contracts (Regulation) Act, 1956 and the Byelaws and Regulations to be amended for the enrolment, eligibility criteria, precise functions, duties and responsibilities of the authorised assistants/clerks of members and for holding the members of Stock Exchange under whom they work, responsible for all the transactions concluded by the authorised assistants/clerks in the market either on behalf of the members or on their own account.

## 7. Page 75

## Para 7.88

Byelaws and Regulations of all the Stock Exchanges should be suitably amended so as to make them uniform. Uniformity in the criteria for inclusion of scrips in the specified section should also be laid down, wherever applicable.

## 8. Page 75

## Para 7.86

Byelaws and Regulations to be amended to ensure prevention of excessive build up of speculative activities in the market with special provisions to forestall or diffuse crisis situations.

## 9. Page 77

## Para 7.96

With a view to having separate contracts for trading for settlement account and for general investment, Bye-laws and Regulations should be suitably amended.

## 10. Page 78

## Para 7.98

Byelaws and Regulations to be amended to prohibit and ban carry over of transactions in cash scrips. Though this is not now permissible in the Byelaws and Regulations, in practice this is being done in many leading Stock Exchanges.

## 11. Page 77

## Para 7.97

Carryover of transactions in case of specified shares should not be permitted beyond four settlement periods of 14 days each and members should settle such positions once in 60 days. Byelaws and Regulations will have to be changed suitably.

## 12. Pages 78 &amp; 102

## Paras 7.99 &amp; 10.16

With a view to protecting genuine investors and ensuring delivery of shares at the contracted price, the Byelaws and Regulations should be amended to provide for the following in case of default by the member brokers :

(a) the shares should be acquired through auction and difference in price should be collected from the member brokers.

(b) the clients should get protection in the case of asset distribution of a defaulting member.

## 13. Page 78

## Para 7.101

Byelaws and Regulations to be amended vesting the authority with the Stock Exchanges to direct members not to deal with any non-members, without assigning any reason. Member brokers should not be allowed to arrange for finance from outside by offering the shares under purchase with blank transfers as security, for speculative trading on their own account or on account of others.

## 14. Pages 79 &amp; 102

## Paras 7.103 &amp; 10.12

Kerb trading to be strictly prohibited and the Byelaws and Regulations should be further tightened making it as an offence punishable by suspension of membership.

## 15. Page 79

## Para 7.104

Closing quotations should not be permitted to be marked in the daily official list fifteen minutes before the closing time unless the transactions are for more than 250 shares of Rs. 10 each or 25 shares of Rs. 100 each. This is intended to prevent manipulation of closing prices.

## 16. Page 79

## Para 7.105

Spread of two-way quotations for buying and selling in a single security should be within reasonable limits and be as prescribed by the Council for Securities Industry.

## 17. Page 80

## Para 7.109

Trading in securities before listing to be regulated by permitting official trading by grant of provisional listing for the securities from the date of issue of prospectus. Byelaws and Regulations should be suitably amended.

## 18. Page 81

## Para 7.110

Byelaws and Regulations to be amended to make margins payable by members only in cash and not by way of securities.

## 19. Pages 81 &amp; 82

## Paras 7.112 (i) &amp; (ii)

Byelaws and Regulations to be amended to make it statutorily obligatory for members to report all the transactions in securities to the Stock Exchanges. Stock Exchanges should have the authority and power to search and seizure of documents and books of accounts of members, whenever such action is called for. Stock Exchanges should also have the authority to direct members to maintain specific books of accounts.

## 20. Page 88

## Para 8.22

Securities Contracts (Regulation) Act, 1956 and the Byelaws and Regulations should be amended to make issue of contract notes by the members to the clients statutorily compulsory. These contract notes should give the price of the securities and also the brokerage and other charges separately.

## 21. Page 92

## Para 9.10

Securities Contracts (Regulation) Act, 1956 and the Byelaws and Regulations should be amended to make it obligatory on the part of members and the clients to observe their respective Codes of Conduct.

## 22. Page 101

## Para 10.8

Securities Contracts (Regulation) Act, 1956 and the Byelaws and Regulations to be amended to prohibit members from matching transactions of their clients in their offices and to ensure that all orders of clients are executed on the floor of the Exchange.

## 23. Pages 78 &amp; 102

## Paras 7.99 &amp; 10.16

Byelaws and Regulations to be amended to provide that squaring-up of transactions should not be allowed where the investor wants to take delivery of shares. Closing out provisions of the Byelaws and Regulations to be suitably amended.

## 24. Page 103

## Para 10.18

Byelaws and Regulations to be amended to provide that members should be held responsible for the act of commission and omission of sub-brokers associated with them.

## 25. Page 107

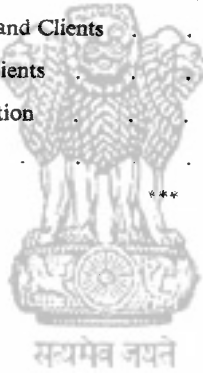
## Para 10.49(3)

Byelaws and Regulations to be amended to increase the guarantee period in respect of delivery of shares by the selling party to 21 days before the closure of Register of Members or the record date instead of 10 to 13 days presently observed by the Stock Exchanges.



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**CHAPTER 1**  
**BUSINESS ON THE EXCHANGE**  
**BUSINESS DAYS AND HOLIDAYS**  
**Business Days**

1. (a) The Stock Exchange shall be open for business on all week days i.e. Business days except Saturdays and Sundays.

(b) The Stock Exchange may also be kept open for business for the Diwali, Muhurat or the Budget or any special occasion.

**Exchange Holidays**

2. (a) The Stock Exchange shall observe as holidays all Public Holidays declared under the Negotiable Instruments Act, 1881.

(b) The Governing Body may declare from time to time, Stock Exchange holidays not exceeding twelve days in any calendar year.

**Alteration or Cancellation of Exchange Holidays**

3. The Governing Body may from time to time alter or cancel any of the Exchange holidays fixed in accordance with these provisions.

**Closure of Market**

4. The Governing Body may close the market on days other than or in addition to holidays.

**Closure of Market by Managing Director**

5. The Managing Director may at any time close the market for twenty-four hours.

**Trading Sessions on the Floor of the Exchange**

6. (a) Members shall meet together for purposes of trading in securities to be called Trading Session on the Floor of the Exchange on the days and during the hours prescribed and on such other days or during such other hours as the Governing Body may from time to time prescribe.

(b) The Trading Sessions on the Floor of the Exchange shall be held from 11.30 AM to 3.30 PM on all business days.

**Proceedings at Trading Sessions**

(c) The following shall be the order of procedure at the Trading Sessions on the Floor of the Exchange :

A warning bell shall be rung before the opening and the closing of the Trading Session. On the ringing of the opening bell, the Trading Session shall be open and shall continue to be open for Trading until the ringing of the closing bell after which no further Trading shall take place on the Floor of the Exchange.

**Altering Time of Trading Session**

7. The Governing Body or the Managing Director may reduce, extend or otherwise alter the time of any trading session on the Floor of the Exchange on any particular day.

**Off the Floor Business**

8. Members may enter into transactions off-the-floor before or after the hours of the Trading Sessions fixed in accordance with these provisions.

**Trading Sessions Outside Prescribed Hours and Street Trading Forbidden.**

9. Members shall not meet together for the purpose of trading in securities either on or off the Floor of the Exchange before or after the hours of the Trading Sessions fixed in accordance with these provisions and no calling out of prices, bids or offers trading in the street or at entrances to or in the vicinity of the Stock Exchange or kerb trading be allowed. Members transgressing these provisions shall be liable to fine, suspension, expulsion or any other penal disciplinary action as the Managing Director may in his discretion impose.

**Who may be Admitted to the Floor**

10. A member shall be entitled to admission to the Floor of the Stock Exchange. An Authorised Assistant or Authorised Clerk appointed by a Member may also be allowed admission to the Floor of the Stock Exchange.

**Who May Not be Admitted to the Floor**

11. A member and his partners, authorised assistants and authorised clerks who have been suspended or expelled or declared defaulter shall not be allowed admission to the floor of the Stock Exchange.

**Visitors**

12. A visitor may be allowed to visit the Floor of the Stock Exchange during the Trading Session with the permission of the Managing Director, Secretary or an Officer of the Exchange.

**Wearing of Floor Badges**

13. (a) No one shall be admitted to the Floor of the Stock Exchange during the Trading Session unless he is wearing a Floor Badge.

## Floor Badges

(b) Members, authorised assistants and authorised clerks shall wear distinctive Floor Badges issued by the Exchange and to be obtained from the Exchange on payment of the prescribed fees.

### Badges to be Worn Prominently

(c) The Floor Badges shall be kept in good condition and order and shall be worn properly and prominently to be easily visible.

### Loss of Badges

(d) Loss of Floor Badges shall be notified to the Exchange and fresh Floor Badges will be issued in their place on application by such members, authorised assistants or authorised clerks, and on payment of the prescribed fees.

### Penalty for Improper Use of Floor Badge

(e) The Governing Body or the Managing Director may fine, suspend or expel any member, authorised assistant or authorised clerk who transfers his Floor badge to any person or uses it for an improper purpose or makes a breach of the conditions subject to which Floor badge are issued.

### Return of Floor Badges

(f) Members who terminate a partnership or withdraw the authorisation of authorised assistants or authorised clerks shall return to the Exchange the Floor badges issued to them.

### Admission During Good Behaviour

14. A member, authorised assistant, authorised clerk or any other person shall be admitted to the Floor of the Stock Exchange only during good behaviour and every one of them shall be bound to observe the Rules, Bye-laws and Regulations of the Stock Exchange. The Governing Body or the Managing Director may in its or his absolute discretion refuse admission to any one to the Floor of the Stock Exchange and may at any time suspended or terminate the right of admission of any such person without assigning any reason whatsoever.

### Official Pads

15. (a) Members and their authorised assistants or authorised clerks may be provided by the Stock Exchange on payment of the prescribed charges with distinctive official memo pads for noting down transactions in securities made by them on the Floor of the Stock Exchange.

### Transactions by Authorised Assistants or Authorised Clerks.

(b) Authorised Assistants or Authorised Clerks may make transactions on the Floor of the Stock Exchange only on behalf of the Members under whom they are employed. They shall not make transactions either in their own name or in the name of any member

other than their employers. An authorised assistant or authorised clerk acting in violation of this provision shall forthwith be fined, suspended or expelled by the Governing Body or the Managing Director. Members who enter into transactions with an Authorised Assistant or Authorised Clerk of another member to the account of the Authorised Assistant or Authorised clerk shall also be liable to be fined, suspended or expelled by the Governing Body or the Managing Director.

### Management on the Floor of the Exchange

16. The management on the Floor of the Stock Exchange and the regulation of the admission of persons thereto shall be in the charge of the employees of the Exchange acting under the authority of the Secretary.

### Trading Unit

17. (a) The Governing Body may from time to time specify the units of trading in different securities. Transactions in any security shall be deemed to be in the following units of trading unless otherwise stipulated when entering into the transaction :

Shares of Joint Stock Companies of  
nominal value : UNIT

Rs. 10 paid shares — 100 shares

Rs. 100 paid shares — 10 shares  
Debentures of Joint Stock Companies

Rs. 100 Debentures — 10 Debentures

Rs. 1000 Debentures — 1 Debenture

Government Securities (including Loans, Debentures of Port Trusts, Municipal Corporations etc.)—  
Rs. 25,000 face value.

### Odd Lots

(b) All transactions shall be in the trading unit or multiples thereof unless an odd lot or small lot is specified at the time of transaction.

### Quotations

18. (a) The quotations or prices of securities dealt in on the Stock Exchange shall be collected and recorded daily on business days under the authority of the Secretary. No quotation shall be allowed for any transaction unless made in the regular course of business and unless business for a trading unit in the security has been done by actual purchase and sale at that rate.

(b) The quotations or prices for special or odd lots or small lots of securities or Letters of Renunciation, Letters or Rights, Coupons and Letters of Allotment shall be indicated and marked as such in the quotations.

**Marked When Expunged**

19. A quotation or price once having been marked for any security shall not be expunged except by order of the Governing Body or the Managing Director, who may, after calling for the names of the Members who made the transaction and making the necessary inquiries, withdraw a quotation or price which is considered

to be inconsistent with the market value of the security or is not the result of a bonafide transaction.

**Daily Official List**

20. A Daily Official List of security prices shall be published and issued by the Stock Exchange. Members of the public and investors may be supplied copies of the Daily Official List on payment of the prescribed subscription.



## CHAPTER 2

### DEALINGS IN SECURITIES

21. Dealings in securities shall be permitted on the Exchange as provided in these Bye-laws and Regulations. Save as so provided no other dealings shall be allowed.

**Securities (Other than Government securities): Admitted to Dealings on the Exchange.**

22. Dealings are permitted in securities (other than Government Securities) which are from time to time admitted to dealings on the Exchange by the Governing Body.

**Application for Admission to Dealings**

23 (a). Applications for admission of securities to dealings on the Exchange shall be made to the Exchange in the prescribed form in accordance with the provisions of the Securities Contracts (Regulation) Act, 1956 and the Securities Contracts (Regulation) Rules, 1957 together with the necessary documents.

**Grant or Refusal of Admission to Dealings**

(b) The Governing Body shall consider and may in its discretion approve subject to such terms as it may deem proper or defer or reject any application for admission of the securities of a Company to dealings on the Exchange.

**Admission to Dealings Subject to Securities Contracts (Regulation) Act 1956 and the Rules Framed Thereunder.**

(c) The Governing Body shall grant admission to dealings on the Exchange to securities of a Company issued in accordance with the provisions of the Securities Contracts (Regulation) Act, 1956 and the Securities Contracts (Regulation) Rules, 1957.

**Listing Conditions and Requirements**

(d) The Governing Body may not grant admission to dealings on the Exchange to the Securities of a Company unless it complies with the Listing conditions and requirements prescribed in addition to the listing requirements prescribed in the Securities Contracts (Regulation) Rules, 1957.

Provided that in any particular case the Governing Body may by a resolution waive or dispense with the strict enforcement of the listing requirements prescribed in the Securities Contracts (Regulation) Rules, 1957 to the extent the said Rules so provide and the requirements prescribed therein.

**Conditions and Requirements of Listing**

24. It shall be a condition and requirement of listing on the Exchange that where a company makes any issue of securities through a prospectus stating therein that Listing has been or will be sought on the Exchanges and invites subscriptions from the public such securities of the company shall continue to be so listed on the Exchange and no withdrawal of listing by the companies shall be permitted at any time for any reason. In all other cases, where companies do not state the name of the Stock Exchange in the prospectus while inviting subscription from the public but get the securities listed subsequently on any Stock Exchange not named in the prospectus, the securities of such companies shall continue to be listed on the Exchange for a minimum period of five years from the date of listing and no requests from the companies for delisting for any reason shall be permitted until the expiry of the five years of listing.

**Dealings in Securities Dealt in on other Stock Exchanges.**

25. The Governing Body may in its discretion and subject to such conditions as it may stipulate permit dealings in any security or securities admitted to dealings or regularly dealt in on other Stock Exchanges.

**Government Securities**

26. (a) Dealings are permitted in Government Securities which term for purposes of these Bye-laws and Regulations includes securities issued by the Government of India, State Governments, Port Trusts, City Corporations, Municipalities and Civic Bodies, other than Companies.

**Government Securities Deemed to be Admitted to Dealings from date of Issue**

(b) Government Securities shall be deemed to be admitted to dealings on the Exchange from the date on which they are issued.

**Dealings in Provisional Documents**

27. The Governing Body may in its discretion and prior to granting admission to dealings on the Exchange permit dealings in Provisional Documents which term for purposes of these Bye-laws and Regulations includes Coupons, Fractional Certificates, Letters of Renunciation or transferable Letters of Allotment, Acceptance or Application or options or other rights or interests in securities issued or to be issued by a Company or other similar documents in respect of a

Company whose securities are admitted to dealings or in whose securities dealings are permitted on the Exchange.

### **Specific Transactions**

28. The Governing Body may permit specific transactions to be made in securities of public companies not admitted to dealings on the Exchange.

### **Applications in Respect of New Issues or Offers for Sale**

29. Tenders or applications for subscription or purchase in respect of any floatation or new issue or offer for sale of any security shall not be submitted by or through members unless the issuer or offeror, or the underwriters or stock brokers engaged by such issuer or offeror, offers to all a fair and equal opportunity for subscription or purchase and the same terms as to Commission and brokerage to all the members of the Exchange and unless it is provided that all tenders and applications for subscription or purchase shall rank alike for allotment or sale irrespective of whether they be subject to commission or brokerage or not.

### **Underwriting, Placing and Preliminary Arrangements**

30 (a). A member shall not enter into an underwriting contract nor shall contract either as principal or agent to subscribe or purchase or to procure whether through the market or otherwise subscribers or purchasers nor shall he act or agree to act as broker, manager or underwriter in connection with any floatation or issue of any security unless the issuer conforms or agrees to conform to the listing conditions and requirements prescribed in these Bye-laws and Regulations and undertakes to apply for admission of such security to dealings on an Exchange.

### **Placing Distinguished from Dealings**

(b) Arrangements entered into either as principal or agent to subscribe or purchase or to procure whether through the market or otherwise subscribers or purchasers for a security as provided in sub-clause (a) shall be deemed to be "placings" as distinguished from "dealings" which term for the purpose of this provision refers to transactions after the grant of admission to dealings on the Exchange.

### **Dealings Subject to Admission not Permitted**

(c) Dealings or arrangements for dealings "subject to admission to dealings" shall not be permitted.

### **Placing not to be Negotiated**

(d) Except for specific transactions made with the permission of the Managing Director as provided in these Bye-laws and Regulations securities which are placed may not be placed once again or negotiated in any way before the grant of admission to dealings on the Exchange.

### **Arbitrage**

31. Arbitrage business of buying or selling securities in one market with the intention of reversing

such transactions in another market based on the price differences between such markets may be done in a security in which dealings are permitted.

### **Fees**

32. Companies whose securities are granted admission to dealings on the Exchange shall pay such fees as the Governing Body may from time to time determine.

### **Suspension of admission to dealings on the exchange**

33. Subject to the provisions of the Securities Contracts (Regulation) Act 1956 and the Securities Contracts (Regulation) Rules, 1957 the Governing Body may suspend at any time the admission to dealings on the Exchange granted to any security for such period or periods as it may determine and restore admission to dealings such security subject to such conditions as it may deem fit.

### **Withdrawal of admission to dealings on redemption or conversion**

34. The Governing Body may withdraw admission to dealings granted to securities which are about to be exchanged or converted into other securities as a result of any scheme of reorganisation or reconstruction or which being redeemable or convertible securities are about to fall due for redemption or conversion.

### **Withdrawal of admission to dealings on liquidation or merger**

35. If any Company be placed in final or provisional liquidation or is about to be merged into or amalgamated with another company, the Governing Body may withdraw the admission to dealings on the Exchange granted to its securities. Should the merger or amalgamation fail to take place or should any company placed in provisional liquidation be reinstated and an application be made for readmission of the securities to dealings on the Exchange the Governing Body shall have the right of approving, refusing or deferring such application.

### **Withdrawal of admission to dealings on the exchange**

36. Subject to the provisions of the Securities Contracts (Regulation) Act, 1956 and the Securities Contracts (Regulation) Rules, 1957 the Governing Body may by a resolution and where deemed necessary after giving an opportunity to the Company to explain, withdraw the admission to dealings on the Exchange granted to its securities either for breach of or non-compliance with any of the listing conditions or requirements or for any other reason whatsoever to be recorded in the minutes.

### **Readmission to dealings on the Exchange**

37. The Governing Body in its discretion may by a resolution readmit to dealings on the Exchange the securities of a Company whose admission to dealings has been withdrawn previously.



## CHAPTER 3

### TRANSACTIONS IN SECURITIES

#### Transactions, Dealings, Contracts and Bargains

38. For purposes of these Bye-laws and Regulations the terms 'transaction', 'dealing', 'Contract' and 'bargain' in relation to securities shall have one and the same meaning unless the context indicates otherwise.

#### Specified and non-specified securities

39. For purposes of transactions the securities in which dealings are permitted on the Exchange shall be distinguished as under :

- (i) Specified Securities i.e. securities admitted to dealings on the Exchange and placed by the Governing Body on the Specified Securities List; and
- (ii) Non-specified securities i.e. securities other than Specified securities.

#### Conditions for admission to the specified securities list

40. Excepting Government Securities, Bank Shares and partly-paid company's securities the Governing Body shall from time to time designate which of the securities admitted to dealings on the Exchange should be included in the Specified Securities List.

Provided however that no such securities of a Company shall be so included unless the following conditions are satisfied, namely :

- (i) the securities shall be fully paid-up equity shares of a company other than a banking company;
- (ii) the securities shall have been admitted to dealings for at least one year on any Stock Exchange recognised under the Securities Contracts (Regulation) Act, 1956, or in the case of securities of merging companies the securities of the principal merging companies shall have been admitted to dealings for at least one year previous to the date of merger;
- (iii) the securities shall not be already included in the Specified Securities List of any other Stock Exchange recognised under the Securities Contracts (Regulation) Act, 1956.
- (iv) the Company shall be of sufficient magnitude and public importance and the subscribed capital represented by the Securities shall be at least 100 lakhs of rupees and their aggregate value at the ruling market price is at least 200 crores of rupees.

- (v) the public interest in the Company shall be adequate with at least 49 per cent of the capital represented by the securities being held by the public and such holdings shall be broadly and evenly distributed among a larger number of shareholders without any undue concentration in the hands of a few persons.

Explanation For purposes of sub-clause (v) of this provision the word 'Public' shall be deemed to exclude Directors, Managing Directors, the nominees and the husband, wife, brother, or sister of the person aforesaid and any private or public limited company in which such persons have a controlling interest or which is under their management or supervision.

#### Addition to or suspension or removal from the specified Securities list

41. The Governing Body may by a resolution from time to time add a security to the Specified Securities List and may in like manner at any time suspend or remove any security from the Specified List.

#### Types of Transactions

42. Transactions for purchase and sale of securities in which dealings are permitted may be done

- (i) for Spot Delivery
- (ii) for Hand Delivery
- (iii) for Settlement
- (iv) for Special Delivery and
- (v) for Specific Delivery

#### Transactions

43. Transactions in securities may be done

- (i) for 'Spot Delivery' as defined in the Securities Contracts (Regulation) Act, 1956 i.e. for delivery and payment on the same day as the date of contract or on the next day, the actual period taken for the despatch of securities or the remittance of money therefor through the post being excluded from the computation of the period aforesaid if the parties to the contract do not reside in the same town or locality;
- (ii) for 'Hand Delivery' i.e. for delivery and payment not earlier than two business days and not more than fourteen days following the date of the contract.

Provided however that in the case of such securities as may be designated by the Governing Body as Specified securities delivery and payment may be extended or postponed by the Governing Body by further periods of 14 days each, so that the overall period does not exceed 90 days from the date of the Contract.

- (iii) for the 'Settlement' i.e. for clearance and settlement through the Clearing House in the manner prescribed in these Bye-laws and Regulations :

Provided however that transactions in specified securities for settlement may be completed either by delivery and payment or set off by reverse transactions within the settlement period, on or before the last business day fixed for the settlement :

Provided further, that the Governing Body may, in order to facilitate completion of transactions, extend the period of settlement by seven more days, subject to the condition that the overall period of trading for the settlement shall not exceed in any case ten business days in all.

- (iv) for 'Special Delivery' i.e. for delivery and payment within any time exceeding fourteen days but not exceeding two months following the date of the contract unless extended by the Governing Body or the Managing Director, as provided in these Bye-laws and Regulations.

Provided however that transactions for Special Delivery may be entered into by Members with the prior permission of the Managing Director only in respect of the following :—

- (a) when securities are lodged with the Company for registration, sub-division, consolidation, renewal, conversion or exchange, or
- (b) when securities are lodged with the Company for collection of interest, dividend, bonus or rights issue of securities or
- (c) when securities which have to be delivered are to be received from outside India or
- (d) when securities cannot be delivered within fourteen days following the date of the contract for any other reasons :

Provided further that such transactions for Special Delivery shall not be set off by reverse transactions except with the prior permission of the Managing Director.

- (v) for 'Specific Delivery' in securities that are not listed on any recognised Stock Exchange in India, with the prior permission of the Managing Director and subject to such terms and conditions as may be imposed by him.

#### **Transactions for Spot Delivery, Hand Delivery and Special Delivery in all Securities**

44. Transactions for Spot Delivery, Hand Delivery and Special Delivery may be made in all securities in which dealings are permitted on the Exchange including securities classified as Government Securities, Debentures, Specified Securities and non-Specified Securities.

#### **Transactions for the settlement in non-Specified Securities void**

45. Transactions for the settlement shall only be made in Specified securities. All transactions for the settlement in any other security shall be deemed void.

#### **Transactions in Government Securities and Debentures deemed to be for Hand Delivery**

46. All transactions in Government Securities and in bearer and registered debentures admitted to dealings on the Exchange shall be deemed to be for hand delivery falling due for delivery and payment not earlier than two business days and not more than fourteen days following the date of the contract.

#### **Transactions in specified Securities deemed to be for Current Settlement**

47. Unless otherwise stipulated when entering into the transaction, all transactions in specified securities shall be deemed to be for the current settlement :

Provided however that when transactions in specified securities are subject to any special stipulation or in other than the prescribed trading unit or multiples thereof such transactions shall be deemed to be for hand delivery i.e. for delivery and payment within fourteen days following the date of the contract as in the case of non-specified securities.

#### **Transactions in specified Securities**

48. Unless otherwise determined by the Governing Body, transactions in specified Securities shall be performed in the following manner :

- (a) All transactions shall be settled every fourteen days hereinafter called a "settlement period" by delivery and payment or as the Governing Body may from time to time prescribe :

Provided however the transactions in specified securities for settlement which are not completed either by delivery and payment or set off by reverse transactions at the end of the settlement period of ten business days may be carried over to the subsequent settlement periods.

Provided further that such transactions shall not be carried over beyond ninety days from the date of the original contract, and at the expiry of that period of ninety days, all such transactions still outstanding shall stand terminated.

#### **Settlement days**

(b) The Governing Body shall fix in advance the first and the last business day of each Settlement period and the various clearing days. The first business day of a settlement shall not be more than two business days previous to and including the last business day of the preceding settlement. Such settlement programmes shall be published for the information of the members.

#### **Transactions beyond ensuing Settlement void**

(c) No transactions in Specified Securities made for a period of beyond the current and ensuing settlements shall be recognised and all such transactions shall be deemed void.

#### **Carry-over transactions deemed to be at making-up price**

(d) Transactions carried-over in any Specified Security from one Settlement to another shall be deemed to be at the making-up price fixed for the security for the current settlement by the Managing Director or in his absence by the Secretary.

#### **Performance of transactions in specified securities**

(e) Transactions in Specified Securities entered into during the Settlement period may be closed by purchase or sale during the Settlement or carried over to the ensuing settlement. All other transactions in Specified Securities entered into during a Settlement that remain outstanding at the close of business on the last business day shall be performed by delivery and payment on the days fixed for the purpose of settlement.

#### **Transactions in non-specified securities other than Government securities and bearer and registered debentures deemed to be for hand delivery.**

49. All transactions in Non-specified Securities (other than Government securities and bearer and registered debentures) admitted to dealings on the Exchange shall be deemed to be for hand delivery falling due for delivery and payment not earlier than two business days and not more than fourteen days following the date of the contract, or within such time or such other day or days as the Governing Body may from time to time prescribe.

#### **Transactions in provisional documents**

50. Transactions in Provisional Documents shall be made and settled as determined from time to time in each case by the Governing Body.

#### **Transactions in non-specified securities other than Provisional Documents and securities admitted to dealings on the Exchange**

51. Transactions in Non-Specified Securities other than Provisional Documents and securities admitted to dealings on the Exchange shall be made and settled in accordance with the provisions relating to Non-Specified securities (other than Government Securities and Debentures) admitted to dealings on the Exchange in the manner and to the extent and subject to such modifications as may be from time to time specified by the Governing Body.

#### **Transactions for Special Delivery**

52. Transactions for Special Delivery may be entered into when securities are sent for registration, sub-division consolidation, renewal, conversion or exchange or when securities are lodged for collection of interest, dividend, bonus or rights securities or when securities have to be received from abroad or when securities cannot be delivered for any other reason within fourteen days following the date of the contract provided the period of delivery does not exceed two months unless extended by the Governing Body or the Managing Director. All such transactions shall be reported to the Exchange in the prescribed form.

#### **Specific Delivery Transactions**

53. (a) Transactions for Specific Delivery may be entered into with the prior permission of the Managing Director and subject to such terms and conditions he may impose, and applications for such permission shall be made in the prescribed form.

#### **Specific Delivery Transactions deemed to be for spot Delivery**

(b) All Specific Delivery transactions entered into subject to these provisions shall be deemed for spot delivery.

#### **Transactions due on other than business days**

54. All transactions other than for the Settlement which fall due on a day other than a business day shall mature on the succeeding business day.

#### **Extension or postponement of contracts by the Governing Body**

55. Notwithstanding anything to the contrary contained in these Bye-laws and Regulations the Governing Body may by a resolution and for reasons to be recorded therein extend or postpone the time for performance of contracts in any security or securities from time to time whenever in its opinion such action is called for in the public interest or by just and equitable principles of trade or when circumstances beyond the control of either or both of the contracting parties make such action desirable.

### **Extension or postponement of contracts by the managing Director**

56. Notwithstanding anything to the contrary contained in these Bye-laws and Regulations the Managing Director may in his discretion extend or postpone in any particular case the time for the performance of a contract in any specified security or securities from any one settlement to the ensuing settlement and in any Non-Specified Security or Securities by a period not exceeding fourteen days.

### **Alteration of settlement and settlement days**

57. The Governing Body may by a resolution and for reasons to be recorded therein at any time in times of exigencies curtail, extend, alter or postpone from time to time to any other date or dates the entire Settlement or any or all of the various Settlement Days in respect of any or all of the Specified Securities.

Provided that such extension or postponement shall not be at any time for a period exceeding the period of one settlement.

Provided further that if in the case of Specified Securities the Pay-in Day notified for any Settlement is extended or postponed by a period beyond one week the Governing Body shall fix contango payable by the purchaser to the seller for such securities on the basis of the contango of the preceding settlement.

### **Alteration of hand delivery days**

58. The Governing Body may by resolution and for reasons to be stated therein, at any time in times of exigencies curtail, extend, alter or postpone from time to time to any other date or dates the period of delivery in respect of non-specified securities.

Provided that intimation of any such change in the period of delivery is communicated to the Government within twentyfour hours.



## CHAPTER 4

### TRANSACTIONS SUBJECT TO MARGIN REQUIREMENTS

59. (a) Transactions in any security or securities shall be subject to margin requirements prescribed by the Managing Director from time to time.

(b) The Managing Director may impose margins at his discretion in respect of transactions in any security or securities including specified securities non-specified securities listed on the Exchange, and also in respect of permitted securities listed on other Stock Exchanges.

(c) All transactions entered into by Members on the Floor of the Exchange or in their offices with other members or clients as agents or on their own account as principals shall all be subject to the margin requirements prescribed in these provisions.

(d) All the margin provisions shall be applicable with equal force to all clients or persons who transact business in securities with any member of the Stock Exchange. All clients dealing with Members of the Exchange shall pay the margin levied by the Managing Director from time to time in respect of their transactions to the Member through whom they are dealing and margin payment by clients shall be deemed as a condition precedent for the due execution of orders placed by clients with members.

#### Daily Margin

60. (a) The Governing Body may require the Members of the Exchange to pay margin on the daily transactions entered into by them in any security or group of securities.

(b) The Governing Body may for this purpose require the members to submit a Margin Statement of all their transactions in the specified securities and or non-specified securities and or permitted securities in a form prescribed for the purpose which may be modified from time to time. The Margin Statement shall show the aggregate of gross purchases and the aggregate of gross sales entered into by the member with other members in the market either on his own behalf or on behalf of his clients (without setting off the purchases of one client against the sales of another and vice versa) and should also include (i) his transactions with his constituents as a principal and (ii) transactions put through directly between his constituents. The Margin Statement for each day shall show the cumulative aggregate of purchases and aggregate of sales outstanding for settlement at the end of the day and shall be submitted before the commencement of trading on the following day or 12 noon.

(c) The margin payable by the members shall be at such rate or rates fixed by the Managing Director from time to time and the member shall be entitled

to collect the same from the client on whose behalf and order the transactions in securities are being effected. It shall be permissible for the Managing Director to fix an exemption limit in respect of individual securities, taking into account market factors.

(d) On each business day, members who are required to deposit the margin as per the rates prescribed above shall pay the margin to the Clearing House/Exchange giving the details of payment in the form prescribed for the purpose in respect of business done by them on the previous business day. The margin shall be deposited with the Clearing House/Exchange in cash or by a cheque drawn on a scheduled bank in favour of the Exchange and shall be retained by the Exchange till the settling day for the current settlement.

(i) Members are permitted to adjust the margin payable for the business done in any security against business done in any other security if the outstanding business in that security falls below the exemption limit, if any;

(ii) No margin shall be required to be paid for purchases in respect of which an approved Bank gives the Clearing House an irrevocable guarantee that it will take delivery of the securities on the due dates;

(iii) No margin will be required to be paid in the case of sales if the securities tenderable against such sales are deposited with the Clearing House or if an approved Bank gives the Clearing House an irrevocable guarantee that such securities are in its custody and will be duly delivered to it on the due dates.

#### Carry-over Margin

61. (a) Members shall deposit with the Clearing House and or the Exchange carry-over margin on the aggregate gross purchases and on the aggregate gross sales in the specified shares carried over from the current to the ensuing settlement on account of each of their clients and on their own account as principals.

(b) On the last business day of the settlement, the Managing Director or in his absence the Secretary shall determine the lower and higher special making-up prices for such specified shares as may be decided by him as under :

(a) In the case of purchases carried over, the special making-up price will be fixed at 3 per cent lower than the normal making-up price.

- (b) In the case of sales carried over, the special making-up price will be fixed at 3 per cent higher than the normal making-up price.
- (c) The percentage referred to above may be increased suitably in individual securities if, in the opinion of the Managing Director, circumstances so warrant.

#### **Ad hoc Margin**

62. In addition to the above provisions, the Managing Director or in his absence the Secretary may—

- (a) direct individual members who in his opinion are indulging in excessive speculation to deposit ad hoc margins.
- (b) adopt such other measures including imposition of further ad hoc margins etc. as he considers necessary in the case of a precipitate rise or fall in the price of any security.
- (c) direct that the margins so levied are deposited in cash which will be refunded at his discretion.

63. In addition to the margin requirements laid down hereinafore, in any special exigencies of market conditions prevailing at any time, the Managing Director may, at his uncontrolled discretion, impose front-in margins on any security or securities including specified or non-specified securities or listed on the Exchange and Permitted Securities listed on the other Stock Exchanges in India in such amounts at such rates as may be deemed necessary by him. In all such cases when front-in margin is imposed, members shall not be permitted to enter into purchase or sale of any security or securities concerned without first depositing the front-in margin imposed by the Managing Director.

64. Members shall also be required to pay margins on aggregate purchases and aggregate sales of non-specified securities including Debentures and other corporate securities, if in the interest of the safety of the market, the Managing Director imposes any margin on such securities. In that event the procedures for payment of margins shall apply mutatis mutandis.

#### **Form of Margin Deposit**

65. The margin to be furnished by a member under these Bye-laws and Regulations shall be provided by a deposit of cash or it may be provided in the form of a deposit receipt of a bank approved by the Governing Body or in Securities approved by the Governing Body subject to such terms and conditions as the Governing Body may from time to time impose. Deposits of cash shall not carry interest and the securities deposited by a member valued at the ruling market price shall exceed the margin amount for the time being covered by them by such percentage as the Governing Body may from time to time prescribe.

#### **Value of Margin Deposit to be Maintained**

66. The member depositing margin in the form of securities shall always maintain the value thereof at not less than the margin amount for the time being

covered by them by providing further security to the satisfaction of the Governing Body which shall always determine the said value and whose valuation shall conclusively fix the amount of any deficiency to be made up from time to time.

#### **Margin Deposit to be held by the Clearing house|Exchange**

67. The Margin deposits shall be held by the Clearing House|Exchange and when they are in the form of Bank Deposit Receipts and other securities such Receipts and Securities shall be transferred to the names of the Trustees to be named by the Exchange or to the name of a Bank approved by the Governing Body. All margin deposits shall be held by the Clearing House and/or by the Trustees of the Exchange and/or by the approved Bank solely for and on account of the Exchange without any right whatever on the part of the depositing member or those in his right to call in question the exercise of such discretion.

#### **Letter of Declaration**

68. A member depositing margin under the provisions of these Bye-laws and Regulations shall when required to do so sign a Letter of Declaration in the form prescribed in the relative regulation.

#### **Lien on Margin Deposits**

69. The monies, Bank Deposit Receipts and other securities and assets deposited by a member by way of margin under the provisions of these Bye-laws and Regulations shall be subject to a first and paramount lien for any sum due to the Exchange or to the Clearing House by the Member or by the partnership firm of which he may be a member and for the due fulfilment of his engagements, obligations and liabilities or of the partnership of which he may be a member arising out of or incidental to any dealings, transactions and contracts made subject to the Rules, Bye-laws and Regulations of the Exchange or anything done in pursuance thereof.

#### **Suspension on failure to deposit margin**

70. A member failing to deposit margin as provided in these Bye-laws and Regulations shall be required by the Governing Body or the Managing Director to suspend his business forthwith. A notice of such suspension shall be immediately posted on the notice board of the Exchange and the suspension shall continue until the margin required is duly deposited.

#### **Evasion of Margin Requirements Forbidden**

71. A member shall not directly or indirectly enter into any arrangement or adopt any procedure for the purpose of evading or assisting in the evasion of the margin requirements prescribed under these Bye-laws and Regulations. A member involving himself in any evasion of margin requirements shall be fined, suspended or otherwise penalised as the Governing Body may deem fit.

## MARKET EMERGENCY, CORNER AND CRISIS

### Transactions in Securities—Market Emergency

72. All transactions in securities shall be deemed subject to the provisions contained in these bye-laws and Regulations relating to market emergency, corner, crisis or any market exigency or untoward development in the Securities Industry rendering settlement of contracts in securities difficult.

#### Settlement of Contracts

73. The Governing Body shall have absolute powers and authority to take such steps as are necessary to ensure a smooth settlement of the transactions in securities entered into by the members of the Exchange. The directions and instructions issued in exercise of these powers and authority shall be faithfully carried out by the members and shall not be questioned in any court of law except in so far as otherwise laid down in the law of the land.

#### Governing body to proceed in Specific Cases

74. Without in any way limiting or derogating from the generality of these provisions, the Governing Body may proceed in specific cases in the manner herein after provided.

#### Measures to meet emergency, Corner, Crisis etc.

75. If in the opinion or view of the Governing Body any situation of market emergency, corner, crisis, or any market exigency or untoward development in the Securities Industry exists or has arisen or is likely to occur in the market or if in its opinion or view the conditions prevailing in the market are such as to make free trading in securities extremely difficult the Governing Body may by a resolution take such actions and introduce such measures as it may deem fit in its absolute discretion for meeting any situation of market emergency, corner, crisis or any market exigency or untoward development in the Securities Industry and for stabilising the market-mechanism and ensuring the smooth functioning of the market for securities. Without in any way limiting or derogating from the generality of this provision the Governing Body may proceed in such cases in the manner hereinafter provided.

#### Corner

76. (a) Notwithstanding anything to the contrary contained in these Bye-laws and Regulations, whenever in the opinion or view of the Governing Body a corner has been created in a security or securities admitted to dealings on the Exchange or a single interest or group has acquired such control

of a security or securities so admitted that the same cannot be obtained for delivery on existing contracts except at prices and on terms arbitrarily dictated by such interest or group, the Governing Body may postpone the time for deliveries on contracts in such securities and may from time to time further postpone such time or may postpone deliveries until further action by the Governing Body and may at any time by resolution declare that if such security is not delivered on any contract calling for delivery thereof at or before the time to which the delivery has been postponed or which has been fixed by the Governing Body for such delivery, such contract shall be settled by the payment to the party entitled to receive such security or by the credit to such party of a fair settlement price and the date for the payment of the same as may be fixed by the Governing Body. The Governing Body before fixing the same shall give the parties to the contract which is to be settled on the basis thereof an opportunity to be heard either before the Governing Body or before a Committee authorised for the purpose. Any such committee shall report the testimony together with its conclusions thereon to the Governing Body which may act upon such report without further cause being shown, by the members of the Exchange, by a majority of the votes cast in person, at a meeting of the members.

(b) (i) Alternatively, to meet any market situation of a corner as referred to above in sub-clause(a), the Governing Body in their absolute discretion may by a resolution prohibit further dealings in such security or securities while allowing dealings for closing-out liquidation of existing contracts in such security or securities subject to such restrictions as the Governing Body may determine notwithstanding anything to the contrary contained in these Bye-laws and Regulations.

#### Suspension of Buying-in

(b) (ii) If one due date of delivery and payment fall during the pendency of the emergency, corner, crisis etc., the Governing Body may by a resolution suspend buying-in of the security or securities in which further dealings are prohibited under sub-clause (i) and in that event the Governing Body shall determine the manner of settlement of all existing contracts in such security or securities.

#### Suspension of Buying-in to continue till emergency Corner etc. Exists

(c) The Governing Body may from time to time by a resolution suspend buying-in till the emergency passes over and further dealings in such security or securities may be allowed for spot or hand delivery subject to such restrictions as the Governing Body may impose :

Provided always that if any such security be a specified security it shall be removed from the Specified Securities list and shall not be readmitted to the Specified Securities List till there is a proper distribution.

### Crisis

77. (a) Notwithstanding anything to the contrary contained in these Bye-laws and Regulations whenever in the opinion or view of the Governing Body any situation of a market crisis exists, has arisen or is likely to arise in the market or there is a case of a panic or bear raid or of reckless heavy sales in the market or when it appears in the opinion or view of the Governing Body that security prices are unduly depressed or in the case of an unhealthy rise or bull rigging or indiscrete heavy purchase or when it appears that security prices are unreasonably pushed up that a crisis is at hand or that a fair or normal market does not or may not exist rendering difficult smooth settlement of transactions in the market the Governing body may by a resolution for such period or periods in its absolute discretion:

- (i) prohibit short selling or long buying in any security or securities as the case may be; and/or
- (ii) fix minimum price below which sale or maximum prices above which purchase of any security or securities shall not be made; and/or
- (iii) close the market in whole or in part; and/or
- (iv) prohibit further dealings in any security or securities while allowing dealings for closing-out liquidation of existing contracts in such security or securities subject to such restrictions as it may from time to time determine notwithstanding anything to the contrary contained in these Bye-laws and Regulations;
- (v) draw up time bound programmes of settlement of all outstanding transactions either by closing-out or by squaring-up of transactions as may be directed by the Governing Body.

### Suspension of Selling-out

(b) If the due dates of delivery and payment fall within a period during which further dealings are prohibited in any security or securities or the market continues to be closed in whole or in part as provided in sub-clause (a) the Governing Body shall suspend selling-out in respect of all existing contracts in the security or securities in question till the market reopens. However the buyer shall be entitled to enforce delivery. In the event of the security or securities in question being of the Specified Securities List the following additional provisions shall take effect namely :

- (i) The Governing Body shall during the suspension of selling-out extend the time for payment from Settlement to Settlement till such time as the market reopens and the

liabilities of intermediaries shall continue during the suspension of selling-out. The buying member shall be entitled to enforce delivery in any of such settlement as may be prescribed by the Governing Body. If the buying member after calling for delivery fails to take up and pay for such securities on the due date he shall be liable to pay a penalty of two per cent irrespective of any other liability.

- (ii) The Governing Body shall fix the making-up prices for such security or securities in each settlement and the Contango for carrying-over such security or securities from Settlement on the basis of the ruling market rate of interest and the contango of the previous Settlement. For the first Settlement the making-up prices shall be slightly higher than the prices of such securities prevailing in the market prior to the suspension of business. For each subsequent Settlement the Governing Body may reduce the making-up prices as it may deem fit in the case of each security. All contracts remaining unsettled at the end of each Settlement shall be carried over to the following Settlement at such making-up prices. All accounts shall be adjusted at such making-up prices and the difference shall be payable on the Pay-in Day so fixed or extended for the Settlement.
- (iii) If a member be declared a defaulter during the closure all other members having dealings with him shall determine all outstanding contracts by closing-out against him at the prices fixed by the Governing Body on the day of the re-opening of the market for dealings either for the Settlement or otherwise.
- (iv) If a client fails to pay on the Pay-in Day the differences due by him to his member broker, the latter shall determine all outstanding contracts by closing-out against the client in the open market on or after its reopening for dealings either for the Settlement or otherwise. Such closing-out may be subject to stipulation for delivery in the course of the Settlement and any balance due on such closing-out shall be immediately payable by such client to his member-broker.
- (v) If a member be declared a defaulter or fail to pay the difference due by him to his constituent on the day following the Settling day the constituent may on or after the re-opening of the market either for the Settlement or otherwise determine all outstanding contracts by closing them out in the open market against the defaulting member after giving him a notice in writing to that effect at any time during the period he continues, to be in default. Such closing-out may be subject to a stipulation for delivery in the course of the Settlement and any balance due on such closing-out shall be immediately payable by the defaulting member to his constituent.



### Omaibus Clause

78. Notwithstanding anything to the contrary contained in these Bye-laws and Regulations, the Governing Body is hereby invested with all the authority, power and fullest discretion to take whatever steps it deems necessary to stabilise the market to regulate trading in securities in all its aspects, to oversee orderly settlement of contracts in securities by payment and delivery, to fix minimum floor prices and maximum ceiling prices for securities when exigencies of the market in its absolute discretion warrants for the effective functioning of the Stock Exchange, to terminate the contracts entered into between members and between members and constituents clients even though the period of delivery and payment according to the contract has not expired, to introduce any time-bound or other programmes for settlement of outstanding contracts at any time, whenever in its opinion such action is called for to discipline members in respect of their Stock Exchange transactions to instruct and direct members to carry out any act for facilitating settlement of all contracts as the Governing Body decides it is expedient to do, to take whatever measures are deemed necessary in the public interest for the smooth working of the Stock Exchange and in respect of all transactions in securities between members and between members and their constituents and clients. And no member shall have the right to call in ques-

tion the authority of the Governing Body, whose rulings, interpretation of the Bye-laws and Regulations and directions and instructions shall be final and shall not be arbitrable in any form or manner.

79. Notwithstanding anything to the contrary contained in the Bye-laws and Regulations of the Exchange, the Governing Body may, subject to the provisions of the Securities Contracts (Regulation) Act, 1956, make or amend any of the Bye-laws for the regulation of business in securities, settlement of contracts in securities and with regard to any or all other matters for the orderly functioning of the Stock Exchanges including disciplining of the Members in respect of all transactions in securities, in addition to, or in modification or substitution of any of the Bye-laws and Regulations herein prescribed.

80. In the exercise of any of these powers conferred herein the Governing Body shall be deemed to be vested with the fullest authority to take whatever steps are found necessary in times of emergency, corner or crisis or in any market situation wherein corrective measures are deemed necessary. In respect of any or all such actions no member of the Exchange shall be entitled to call in question any measures or steps initiated and all members shall be bound by the decision of the Governing Body nor shall the members be free to question the authority of the Governing Body in any manner whatsoever.



## CHAPTER 6

### COMPARISON OF TRANSACTIONS

#### Comparison of Contracts

81. (a) With a view to preventing discrepancies, it shall be the duty of every member to compare each transactions entered into by him with other members on the business day following the day of the transaction and members shall rectify or reconcile any discrepancy noticed.

#### Method of Comparison

(b) Comparison of transactions shall be made by members either by the method of signing the entries in the transactions or contract books or by the method of Comparison Memos.

#### Comparison how done

(c) Transactions shall be compared in the Settling Room by members or by clerks authorised by them to sign entries in the transaction or contract books.

#### Comparison by Computers

(d) Where, however, the Governing Body views that, having regard to the multiplicity and volume of transactions, manual comparison is either not possible or time-consuming it may direct that the comparison of transactions be made through the instrumentality of a mechanical device such as a computer.

#### Procedure for Comparison

(e) The Governing Body may prescribe a detailed procedure for the comparison of transactions through mechanical device.

#### Failure to Compare

82. If any member fails to compare or reconcile the discrepancies in his transactions, the following consequences shall follow :

- (a) He shall render himself liable to penalty by way of fine or such disciplinary action as the Governing Body or the Managing Director may direct.
- (b) He shall not be entitled to call for the performance of the transaction except as it appears in the Books of the other member to the transaction.

#### Discrepancies in Transactions

83. If, during the course of comparison, a dispute arises, the member intending to make a claim against the other member to the transaction, if the same is not amicably settled within twentyfour hours of the day when the transaction took place, shall immediately thereafter close out the transaction in the open market and claim the amount of damages from the other member who in turn, will be entitled to refer the matter to arbitration for adjudication within seven days of the receipt of the claim.

## CHAPTER 7

### PROCEDURE FOR SETTLEMENT OF TRANSACTIONS

#### Settlement by Hand Delivery

84. (a) All transactions in securities shall be settled by delivery and payment between the contracting parties in accordance with the provisions hereinbelow.

#### Contracts Subject to Settlement Procedure

(b) All transactions entered into between members and contracts entered into by the members with their clients are subject to the procedure for settlement of transactions laid down by the Governing Body from time to time.

#### Settlement of Government Securities and Debentures

(c) All transactions in Government Securities shall be settled outside the Clearing House by delivery and payment on the date on which the contracts fall due.

#### Delivery and Payment on due date

(d) Government Securities shall be delivered and payment shall be made before 2.00 PM on the due date of the contract and if such due day for delivery be a Saturday delivery and payment shall be made on the business day next following before 2.00 PM.

#### Issue of Receive-and-pay Order

(e) The buying member shall give to the selling member a Receive-and-Pay Order at the contract price before 11 A.M. on the day on which delivery and payment are to be made.

#### Selling-out

(f) If the buying member fails to give a Receive-and-Pay Order in the manner prescribed the selling member shall be entitled to sell out in accordance with the Bye-laws and Regulations relating to closing out.

#### Receive-and-Pay Orders

(g) The Receive-and-Pay Orders for securities shall be properly signed and drawn either on the George Town Area (Madras) Office of a Scheduled Bank or of the receiving member himself.

#### Place of Delivery When Receiving Party in Scheduled Bank

(h) If the receiving party named in the Receive-and-Pay Order be the George Town Area (Madras) Office of a Scheduled Bank the holder of the Receive-and-Pay Order whether a Scheduled Bank or a member shall deliver the securities at such office before 2.00 P. M. on the due date of delivery and payment shall

be made at such office by the receiving Scheduled Bank within one hour of such delivery.

#### Place of Delivery When Delivering but not Receiving Party a Scheduled Bank

(i) If the receiving party named in the Receive-and-Pay Order be a member and the holder of the Order a Scheduled Bank the Scheduled Bank shall have the right or option to require payment and delivery to be made at its Office if situated within the George Town Area (Madras). In the event of the Scheduled Bank exercising this right or option the Bank or the delivering member shall make out a statement showing the amount due plus the accrued interest where payable and present the same together with the Receive-and-Pay Order at the Office of the receiving member. Thereupon the receiving member must make payment of the amount involved at the George Town Area (Madras) Office of the Scheduled Bank not later than an hour after the receipt of the statement.

#### Place of Delivery when Delivering and Receiving Party not Scheduled Banks

(j) If the receiving party named in the Receiving-and-Pay Order as well as the holder of the Order be members the holder shall either,

(i) deliver the securities to the receiving member against payment in cash in the Settling Room or in the receiving Members office or;

(ii) hand over to the receiving member before 11.00 A.M. on the due date of delivery a Delivery Order on the George Town Area (Madras) Office of a Scheduled Bank in which event payment shall be made at such Office of the Scheduled Bank delivering the securities.

#### When Cheques Release Intermediaries

(k) A party who has to deliver the securities sold shall accept a cheque in payment thereof if tendered during clearing hours but all intermediate parties shall be released from all liability if the securities are actually delivered before the cheque is honoured.

#### Closing-out

(l) Failing delivery or payment on the due date of the contract the securities may be bought-in or sold-out against the defaulting member as provided in the Bye-laws and Regulations relating to closing-out.

## Settlement of Contracts in Non-Specified Securities

(m) (i) All transactions in non-specified Securities and Debentures other than for the Clearing shall be settled outside the Clearing House by delivery and payment on the day on which the contract falls due.

(ii) All transactions in non-specified Securities shall normally be settled at the prices agreed between the contracting parties. Where, however, in the opinion of the Governing Body, having regard to the multiplicity or volume of transactions, this is not practicable, such transactions in Non-Specified securities may be settled by the process of a standard price for each security shall be worked out in the manner indicated by the Governing Body from time to time for determining the liabilities of the members inter se.

## Delivery and Payment

(n) On the due date of the contract the selling member shall deliver to the buying member in his office or the Settling Room or such other place as the Governing Body may from time to time notify before 2 P.M. on week days securities together with the necessary transfer deeds in lots of trading unit and the buying member shall pay for them on the same day before 5 P.M. on week days or the following day before 12 Noon.

## Delivery in Part

(o) The buying member shall accept any portion of a lot of securities contracted for if tendered in lots of trading unit.

## No Deduction from Purchase Price

(p) The buying member receiving securities shall not be entitled to deduct from the purchase price any sum due to or any damages claimed by him from the selling member.

## Payment by Cheque

(q) The buying member shall make payment to the selling member by cheques drawn on the George Town Area (Madras) Office of a Bank which is a member of the Bankers' Clearing House, Madras.

## Receive-and-Pay Order

(r) If the buying member desires to receive securities and make payment through a Bank he shall hand over to the selling member on the day previous to the due date of the contract a properly signed Receive-and-Pay Order on the George Town Area (Madras) Office of a Scheduled Bank and payment shall be made against delivery at the office of such Bank.

## Delivery Order on Bank

(s) If the selling member desires to deliver securities through a Bank he shall hand over to the buying member on the day previous to the due date of the contract a properly signed Delivery Order on the George Town Area (Madras) Office of a Scheduled Bank. Delivery shall be made against payment by

cash or by cheque at the Office of such Bank but when the payment is by cheque the Bank may make delivery only after the cheque has been released.

## Receive-and-Pay and Delivery Orders on Banks

(t) If the buying and selling members both desire to receive delivery and give delivery through the George Town Area (Madras) Office of a Scheduled Bank the Receive-and-Pay Order and Delivery Order shall be issued in favour of such Banks and in that event the delivering member's Bank shall deliver securities and receive payment at the Office of the receiving member's Bank.

## Buying-in

(u) If the selling member fails to deliver the securities in the due date of the contract the buying member shall be entitled to buy-in the same or the undelivered portion thereof as provided in the Bye-laws and Regulations relating to closing-out.

## Selling-Out

(w) If the buying member fails to take up or pay for the securities delivered on the due date of the contract the selling member shall be entitled to sell-out the same as provided in the Bye-laws and Regulations relating to closing-out.

## Cross Deliveries

85. The selling member may deliver the same to the buyer or to any other buyer who is entitled to receive from him delivery of securities of a like kind, under these Byelaws and Regulations.

## Settlement Through the Clearing House

86. (1) All transactions for the Settlement in Specified Securities shall be settled through the Clearing House by the process of making-up prices prescribed herein or by such other process or processes as the Governing Body may from time to time prescribe in addition thereto or in modification or substitution thereof. The Bye-laws and Regulations relating to the Clearing House shall be deemed to form a part of any settlement process so prescribed.

## Clearing Process

2. The Governing Body shall from time to time prescribe the clearing process or processes by which transactions in securities shall be settled through the Clearing House.

## Clearing Forms

3. The Clearing Forms shall be in the form prescribed.

## Clearing Days

4. The Managing Director shall from time to time fix the various Clearing Days and the scheduled time to be observed in connection with the clearing operations.

## Process of Making-up Prices

5. Unless otherwise ordered by the Governing Body transactions in Specified Securities for the Settlement shall be settled through the Clearing House by the process of making-up prices as provided herein.

### **Making-up Prices**

6. On the last business day of the Settlement the Managing Director or in his absence the Secretary shall fix making-up prices for Specified Securities at which all accounts in such securities are to be temporarily adjusted and payment made or received.

### **Margin Forms**

7. On Comparison Day members shall submit to the Clearing House Margin Forms in respect of securities carried over from the current Clearing to the ensuing Clearing after duly completing them in accordance with the prescribed provisions.

### **Deposit of Margin**

8. The margin to be furnished by a member shall be deposited with the Clearing House on Comparison Day. The Margin shall be either paid in cash or by a cheque drawn on the prescribed Banks as the Governing Body from time to time directs or deposited in the form of an approved Bank's Deposit Receipt or approved securities subject to such terms and conditions as the Governing Body may from time to time impose.

### **Comparison of Accounts**

9. On Comparison Day members shall compare their accounts with other members with whom they have outstanding transactions to be settled and shall adjust all accounts in respect of specified securities at making-up prices at which payment of differences is to be made or received.

### **Tally Memo**

10. With a view to detecting errors members may give on Comparison Day to other members with whom they have bargains to be settled a Tally Memo showing the balance of different kinds of securities outstanding to be taken from them. A member to whom the Tally Memo is given shall retain it if it be correct and if an error be detected there shall be an adjustment by the parties concerned.

### **Delivery and Receive Orders**

11. On Clearance Day members shall submit to the Clearing House Delivery Orders and Receive Orders showing the balance of the different kinds of securities of which delivery is to be given or taken through the Clearing House.

### **Orders by Members**

12. (a) The Delivery Orders and Receive Orders shall be deemed to be orders by a member of the Clearing House to deliver on his account each kind of security as specified in the Delivery Order and to credit him with the value thereof and to receive on his account each kind of security as specified in the Receive Order and to debit his account with the value thereof.

### **Credit and Debit Contingent on Delivery and Receipt**

(b) The credits and debits referred to in sub-clause (a) shall be contingent upon actual delivery and receipt of the securities and the value in each case shall (subject to alteration of making-up prices as provided in these Bye-laws and Regulations) be determined at the making-up price fixed for the Clearing.

### **Clearing Member Banks**

13. (a) The Securities to be delivered or received by Clearing Member Banks shall be entered in Bank Delivery Orders and Bank Receive Orders.

### **Contingent Delivery and Receipt**

(b) The receipt of securities or payment by the Clearing House from Clearing Member Banks shall be at the making-up prices fixed for the Clearing. Such receipt shall be on condition that the securities received from Clearing Member Banks shall be returned to them and the payment for securities received from the Clearing Member Banks shall be refunded to them if the amount or securities (as the case may be) is or are not received by the Clearing House on account of the members for whom such Clearing Member Banks act.

### **Delivery of Securities**

14. On Delivery Day members who have to give delivery of securities as specified in Delivery Orders shall deliver to the Clearing House such securities together with the necessary transfer forms in lots of trading unit duly signed and witnessed and showing on the reverse the name of the member delivering the securities.

### **Securities Particulars Form**

15. The particulars of the securities to be delivered shall be entered in the Securities Particulars form and a separate form shall be submitted for each kind of security. Receipts shall be issued to members on presentation of such forms duly filled in and specifying the quantity, the names of the transferors and the certificate or distinctive numbers of the securities delivered.

### **Credit in Respect of Securities to be Delivered**

16. (a) The account of a member delivering securities shall be credited by the Clearing House with the value thereof at the making-up price.

### **Debit in Respect of Securities to be Received**

(b) The account of a member by whom securities are to be received shall be debited by the Clearing House with the value thereof at the making-up price.

### **Claim Notes and Credit Notes**

17. On Account Day members who have to make payment shall issue Claim Notes and Credit Notes to the members who have to receive such payment and the issuing members who have to receive such pay-

ment and the issuing members shall make payment in respect thereof to the Clearing House on the Pay-in day fixed for the Clearing.

#### **Claim Notes for Differences only**

18. The Claim Notes shall be for all sums due for difference by one member to another for the Settlement after temporary adjustment at making-up prices.

#### **No Deduction from Claim Notes**

19. A member shall not be entitled to deduct from the Claim Note for differences due by him to another member in the Settlement any other sum due or claimed to be due to him from that member.

#### **Refund of Preferential Payment**

20. A member who receives from another member in any Settlement a Claim Note representing a sum other than the difference due to him in that Settlement shall in the event of the member issuing the Claim Note being declared a defaulter within seven days after the Settling Day refund such sum to the Default's Committee for the benefit of the creditors of the Defaulter.

#### **Credit Notes only Sums Due or Receivable**

21. The Credit Notes issued by one member to another shall be for sums due for the Settlement by the issuing member to his constituent which sums are to be received by the other member on behalf and for the account of the same constituent in respect of moneys due to him from such constituent for that Settlement. Such Credit Notes shall be signed by members or their constituted attorneys and not by their Settlement clerks.

#### **Refund when sums not due to or receivable from constituents**

22. A member receiving a Credit Note from another Member shall not be subsequently obliged to make a refund in respect thereof if he has received the moneys on behalf and for the account of the constituent mentioned therein and appropriated the entire amount towards the same due to him by such constituent for that settlement. But if he has received the Credit Note for a sum not due or in excess of the sum due to him by his constituent for the Settlement he shall in the event of the issuing member being declared a defaulter within seven days after the Settling Day refund such sum or excess to the Default's Committee for the benefit of the creditors of the defaulter. The receiving member shall also in the event of any dispute regarding the Credit Note refund such sum or excess to the issuing member upto an amount not exceeding the sum due by the issuing member to his constituent for the Settlement and the dispute regarding the balance if any shall be decided by arbitration on the merits of the case.

#### **Statements sheets and balance sheets**

23. On Pay-in-Day a member shall prepare and deliver to the Clearing House a Statement Sheet of Differences, a Statement Sheet of Securities and a Balance Sheet.

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#### **Statement sheet of differences**

24. The Statement Sheet of Differences shall contain a statement of all Claim Notes and Credit Notes issued and received by a Member and all such Claim Notes and Credit Notes received by such member shall accompany the Statement Sheet. The debit and credit totals show in such Statement Sheet shall be carried to the Balance Sheet to be debited or credited as the case may be to his account with the Clearing House.

#### **Statement sheet of securities**

25. The Statement Sheet of Securities shall show on the debit side each kind of security to be received by a member and the amount to be paid therefor at the making-up price and on the credit side each kind of security to be delivered by such member and the amount to be received therefor at the making-up price. The debit and credit totals shown in such Statement Sheet shall be carried to the Balance Sheet to be debited or credited as the case may be to his account with the Clearing House.

#### **Contingent Debits and Credits**

26. The credit and debit totals in money ascertained and entered on the Statement Sheet of Securities and carried to the Balance Sheet for credit or debits as the case may be to the account of the member with the Clearing House shall be contingent upon actual delivery and receipt of the securities.

#### **Payment for Securities delivered or received by Clearing Member Banks**

27. The value of securities to be delivered or received by Clearing Member Banks for a member as shown in Bank Delivery and Receive Orders shall be carried to the Balance Sheet to be credited or debited as the case may be to the member's account with the Clearing House.

#### **Notice of Non-delivery and non-payment**

28. Each member shall send to the Clearing House on the Pay-in-Day a Notice of Non-Delivery in respect of each failure to deliver securities and a Notice of Non-Payment in respect of each failure to pay for securities to be received. Such securities shall be bought-in and sold-out and subject to adjustment the value of the making-up prices of such securities shall be carried to the Balance Sheet to be debited or credited as the case may be to his account with the Clearing House.

#### **Cheque in respect of debit balance**

29. (a) When the balance as shown in the Balance Sheet lodged with the Clearing House in the manner provided herein is against a member he shall pay the balance to the Clearing House on Pay-in Day by a cheque drawn on the prescribed Bank or in cash as Governing Body may from time to time direct.

#### **Draft in respect of credit balance**

(b) When the balance as shown in the Balance Sheet is in favour of a member he shall draw a crossed

draft for the amount on the Clearing House made out to the order of the prescribed Bank and bearing the date of the settling Day. Such draft shall be lodged with the Clearing House on the Pay-in Day together with a pay-in-slip of the prescribed Bank.

#### **Stamp Duty Clearance List**

30. (a) On Pay-in Day a member who has entered into transactions in Cleared Securities shall send to the Clearing House a Stamp Duty Clearance List after completing it in accordance with the instructions contained in such form.

#### **Payment of Stamp Duty**

(b) Each member shall pay to the Clearing House by a cheque drawn on the prescribed Bank or in cash as the Governing Body from time to time directs a sum equal to the amount of the stamp duty shown as payable in the Stamp Duty Clearance List.

#### **Payment**

31. (a) On Settling Day unless for special reasons it is otherwise ordered by the Governing Body the amount of the draft drawn by a member shall be paid to the prescribed Bank for the credit of the account of such member.

#### **Delivery of Securities**

(b) Securities which are to be delivered to a member shall unless it is otherwise ordered by the Governing Body or unless there be a debit balance to his account be delivered to him by the Clearing House on application on the Settling Day or as soon as thereafter as practicable. The member taking delivery of securities from the Clearing House shall sign a receipt therefor in the form attached to the Clearing House Securities Particulars Form.

#### **Buying-in on Failure to Deliver**

32. (a) If a member fails to deliver on the Delivery Day the securities deliverable by him such securities shall be bought-in by the Exchange in accordance with the Bye-laws and Regulations relating to close-out.

#### **Selling-out Failure to Pay**

(b) If a member fails to pay on the Pay-in Day for the securities to be received by him such securities shall be sold-out by the Exchange in accordance with the Bye-laws and Regulations relating to closing-out.

#### **Clearance List in Case of Discrepancy**

33. (a) When securities are bought-in or sold-out at a loss as a result of any discrepancy in the Delivery Orders and Receive Orders lodged by members with the Clearing House on the Clearance Day members shall submit Clearance Lists to the Clearing House on such day and before such hour as may be fixed in that behalf in a notice posted on the notice board of the Exchange.

#### **Separate Clearance Lists**

(b) A separate Clearance List shall be made out for each kind of security and such List shall show the balance of securities delivery of which is to be given to or taken from each member. The difference between the totals on each side of such List shall represent the exact number of securities of which delivery if any had to be given or taken by the member through the Clearing House and shown as such in the Delivery Order, or Receive Order.

#### **Payment of Loss in case of Discrepancy**

(c) In the event of a discrepancy in the Delivery or Receive Order when compared with the Clearance List the member concerned shall forthwith pay to the Clearing House the auction charges and the loss incurred as a result of the closing-out.

#### **Declaration of Default**

34. A member failing to deliver his Clearing Forms or to pay any sum due by him to the Clearing House on the Pay-in Day shall be declared a defaulter as provided in these Bye-laws and Regulations.

#### **Transactions with Defaulter**

35. Members shall not omit from their Clearing Forms any transaction entered into with a member who has been so declared defaulter after the Last Business Day of the Clearing but before such forms have been lodged with the Clearing House.

#### **Separate Clearance Forms**

36. Members shall lodge with the Clearing House immediately on declaration of default of a member separate Delivery and Receive Orders showing all the transactions outstanding with the defaulter who has been so declared before the Pay-in Day after the Clearing Forms have been lodged with the Clearing House.

#### **Defaulter's Creditors**

37. Members whose Statement Sheets of Differences show them to be creditors of a defaulter who has been so declared after such statements have been lodged with the Clearing House shall forthwith pay to the Clearing House the amount of the Claim Notes and Credit Notes received by them from the defaulter and included in such Statements.

#### **Defaulter's Debtors**

38. Members whose Statement Sheets of Differences show them to be the debtors of a defaulter who has been so declared after such Statements have been lodged with the Clearing House shall not be entitled to the return of the amounts paid by them to the Clearing House in respect of the Claim Notes and Credit Notes passed by them to the defaulter unless such members are creditors of the defaulter in the ensuing Settlement. If any member be a creditor he shall be entitled to the return of such amount if his claim is equal to or greater than the amount paid and

he may prove for the balance against the estate of the defaulter. If the claim of any creditor member be less than the amount paid he shall be entitled to the amount claimed.

#### **Death of Member during Clearing**

39. If a member dies on or before the Pay-in Day and after the Clearing House has received the Clearing Forms the procedure to be followed in clearing and settling the account of such member shall be the procedure prescribed for clearing and settling the account of a defaulter provided that with the permission of the Governing Body the heirs or legal representatives of such deceased member may receive and deliver securities and make and receive payment on account of such deceased member or any member of whom the Governing Body approves may deliver securities and make payment on account of such deceased member.

#### **Notice of delivery and payment outside Clearing House in respect of specified securities**

40. Whenever the Governing Body orders delivery and payment to be made outside the Clearing House in respect of contracts in any Specified Security or Securities a notice to that effect shall be posted on the notice board of the Exchange before the Delivery Day.

#### **Clearing House Delivery Orders**

41. The Clearing House shall hand over to the delivering members Clearing House Delivery Orders showing the number of securities to be delivered and the names of the members to whom deliveries are to be made.

#### **Payment Against Delivery**

42. The delivering member shall deliver securities according to the Clearing House Delivery Order to the receiving member on such settlement day and before such hour as may be prescribed in the notice in that behalf and the receiving member shall on the same day before such hour similarly prescribed pay for them by a cheque crossed and marked "Payee's Account Only" and drawn on the George Town Area (Madras) Office of a Bank which is a member of the Bankers' Clearing House, Madras.

#### **Payment in Cash or Payment and Delivery through Banks.**

43. If the delivering member requires cash or if the delivering or receiving member or both desire to give delivery and/or make payment through the George Town Area (Madras) Office of a Scheduled Bank the procedure to be followed in that regard shall be the same as for Non-Specified Securities prescribed in these Bye-laws and Regulations.

#### **Non-Delivery by Agreement**

44. If delivery and payment are not completed on the settlement day as the result of an agreement between and delivering and receiving members they shall

be deemed to have entered into a new contract on which they alone shall be liable and thereupon all intermediate parties shall be released from all liabilities.

#### **Closing-out**

45. When securities are not delivered or payment not made on the settlement day the receiving or the delivering member as the case may be shall be entitled to close-out against the member in default in accordance with the Bye-laws and Regulations relating to closing-out.

#### **Delivery and Payment in specified Securities through the Clearing House**

87. Delivery and payment in respect of all transactions for the settlement of Specified Securities shall be made through the Clearing House.

Provided however, that any member who holds for account of his different constituent's contracts both for sale and purchase in the same Clearing that offset each other shall be entitled to offset such contracts and in that case he shall be entitled to give and take delivery outside the Clearing House.

#### **Delivery and payment in cleared Securities when outside the Clearing House**

88. (a) It shall be competent to the Governing Body to order that delivery and/or payment in respect of all transactions entered into or to be entered into in any Specified Security or Securities shall be effected outside the Clearing House.

(b) It shall be competent to the Governing Body to order that delivery and/or payment in respect of all transactions entered into in any Non-Specified Securities or Securities shall be effected through the Clearing House.

(c) It shall also be competent to the Governing Body to order that the delivery and payment and the entire work relating thereto both in Specified Securities and Non-Specified Securities and Permitted Securities shall be effected through the Clearing House through mechanisation and use of Computer.

#### **Alteration of making-up Prices**

89. When the process of making-up prices is in force the Governing Body may in the event of a member being declared a defaulter or in exceptional circumstances which shall be fully set out in the minutes alter the making-up prices at which all accounts in Specified Securities are required to be temporarily adjusted and payment made or received. When the making-up prices are so altered all accounts shall be re-adjusted and payment shall be made or received at the altered making-up prices. In case of default however such re-adjustment of accounts shall be only between the parties having transactions with the defaulter.



### **Change in Settlement Procedure**

90. It shall be competent to the Governing Body to order at any time that all contracts entered into or to be entered into in any security or securities shall be settled by any suitable process through the Clearing House instead of by hand delivery and vice versa.

### **Settlement Bye-laws and Regulations form part of contracts**

91. The Bye-laws and Regulations in force from time to time relating to any procedure for settlement of transactions and the resolutions, notices, directions and decisions of the Governing Body or the Managing Director and posted on the notice board of the Exchange shall be a part of the terms and conditions of every contract in any Specified or Non-specified Security or Securities.

### **Contracts Subject to Change in Settlement Procedure**

92. The Governing Body in their absolute discretion may at any time resolve and through a notice in that behalf posted on the notice board of the Exchange bring into effect in respect of any transactions entered into or to be entered into in any Specified or Non-Specified Security or Securities any substitution of or any additions to, deletions from or variations, alterations or amendments in any settlement procedure or in any clearing process or in the time or the forms prescribed therefor.

### **Change in Scheduled Time**

93. The change in Scheduled time and hour to be observed in connection with the Clearing and settlement of transactions in Specified and Non-Specified Securities shall be as prescribed herein.



## CHAPTER - 8

### CLEARING HOUSE

#### Functions of Clearing House

94. The Exchange shall maintain a Clearing House which shall be under the control of the Governing Body. The Clearing House shall act as :

- (i) the common agent for the members for clearing contracts between members ;
- (ii) for delivering securities to and receiving securities from members ;
- (iii) for receiving or paying any amounts payable to or payable by such members in connection with any of the contracts and
- iv) to do all things necessary or proper for carrying out the following purposes.

#### No Obligation on Clearing House

95. The Clearing House shall not be deemed to guarantee the title, ownership, genuineness, regularity or validity of any security, transfer deed or any other document passing through the Clearing House. In acting as a common agent of the members to facilitate the delivery and payment in respect of securities, transfer deeds and any other documents between members, no obligation or liability shall attach to the Clearing House.

#### Liability of the Exchange

96. No liability shall attach either to the Exchange or the Governing Body or any Member of the Governing Body by reason of anything done or omitted to be done by the Clearing House in the course of its operations nor shall the Exchange or the Governing Body or any Member of the Governing Body be liable to answer in any way for the title, ownership, genuineness, regularity or validity of any securities, transfer deeds or any other documents passing through the Clearing House nor shall any liability attach to the Exchange, the Governing Body or any member of the Governing Body in any way in respect of such securities, transfer deeds and any other documents.

#### Liability of Member

97. No liability shall attach to any member of the Exchange for any delay on the part of the Clearing House in the course of its operations.

#### Settlement Particulars

98. The Exchange shall submit to the Central Government as soon as may be after each Settlement all or any of the following particulars as the Central Government may from time to time require namely:

- (i) the total number of each category of security carried over from one Settlement to another;
- (ii) the total number of each category of security contracts in respect of which have been squared up during the course of each Settlement; and
- (iii) the total number of each category of security actually delivered at each Settlement.

The Exchange shall arrange for the publication of all or any of the above particulars according as the Central Government from time to time directs.

#### Clearing House to delivery Securities at discretion

99. (a) The Clearing House may at its discretion deliver securities received from a member to another member entitled to receive delivery of securities of a like kind (or to instruct a member to give direct delivery of securities which he has to deliver).

#### Privity of Contract

(b) Members giving and receiving delivery as provided in sub-clause (a) shall be deemed to have privity of contract notwithstanding that no direct contract exists between them. However the rights and liabilities of such members in relation to their immediate contracting parties shall not be deemed to be affected thereby except that the selling member who is the immediate contracting party of the receiving member shall be (unless he be himself the delivering member) released from all responsibilities in regard to the title, ownership, genuineness, regularity and validity of the documents received by the receiving member and in regard to the loss and damages arising therefrom which shall be dealt with in accordance with the Bye-laws and Regulations relating to Documents and Registration.

#### Release of Intermediaries

100. If a member delivers securities outside the Clearing House except when so provided in these Bye-laws and Regulations or so directed by the Governing Body members making and accepting such delivery shall release all intermediate parties from all liabilities. The delivering member shall alone be responsible to the receiving member.

#### Governing Body Trustees

101. All sums of money paid into the Clearing House and all credits appearing in the books of the Clearing House on account of any member entitled

thereto shall be held by the Governing Body on behalf of the Exchange as agents and in trust for such member. The making of such payment or credit entry shall be deemed and taken to be a payment or credit to such member. No other member shall be entitled to levy any attachment or execution thereon and neither the Exchange nor any member thereof nor any other person shall subject to any law for the time being in force be deemed to have any right, title, or interest in or to any such money or credit.

#### **Authority to pledge**

102. (a) The Governing Body shall have the right to borrow money against and pledge for the payment thereof all or any part of the securities held by the Clearing House for the account of any member who fails to take up and pay for such securities on the Day.

#### **Amount of Loan**

(b) The amount for which securities may be pledged as provided in sub-clause (a) shall not exceed their value at the ruling market price and it shall be paid to the members who delivered such securities to the Clearing House in accordance with these Bye-laws and Regulations.

#### **Selling-out**

(d) These securities not taken up and paid for shall be sold-out under the authority of the Governing Body in accordance with the Bye-laws and Regulations relating to closing-out.

#### **No lien on client's securities**

103. When a member is declared a defaulter neither the Exchange nor the creditors of the defaulter shall be entitled to any lien on the securities delivered by him to the Clearing House on account of his clients. A client shall on offering proof considered satisfactory by the Governing Body or the Managing Director that such securities were so delivered on his behalf be entitled to receive from the Clearing House, according as the Governing Body or the Managing Director directs either such securities or the value thereof at the altered making-up price subject to payment or deduction of the amount if any due by him to the defaulter.

#### **Sub-division of certificates, split receipts and certified transfer deeds**

104. In respect of securities so specifically designated by the Governing Body the Clearing House may act for its members in procuring sub-divided certificates or provisional documents or split receipts or certified transfer deeds and may in such cases also issue its own Split Receipts and where the company agrees to certify the transfer deeds.

#### **Sub-division**

105. When the delivering member has a certificate or a provisional document of a larger denomination than the amount of securities to be delivered or only

one certificate representing securities conveyed by two or more transfer deeds the certificates or provisional documents may be deposited with the Clearing House. Thereupon the Clearing House shall at the depositor's risk forward them to the Company and either certify the transfer deeds to that effect or procure the sub-divided certificates or provisional documents or Split Receipts or certified transfer deeds from the Company.

#### **Clearing House Split Receipts**

106. (a) In respect of securities so specifically designated the Clearing House may on a member depositing a certificate or provisional document of large denomination issue its own Clearing House Split Receipts in the prescribed form.

#### **Title to Clearing House Split Receipts**

(b) Title to the Clearing House Split Receipts is transferable in the same manner as in the case of original certificates or provisional documents.

#### **Exchange of Clearing House Split Receipts**

(c) The Clearing House shall deliver the new certificates or provisional documents or Split Receipts or certified transfer deeds issued by the Company on presentation and surrender of the Clearing House Split Receipts duly discharged by the members to whom they have been issued.

#### **Procedure to be prescribed by the Governing Body**

107. The Governing Body shall from time to time prescribe the fees to be paid and the procedure to be followed for sub-division of documents, certification of transfer deeds and issue of Clearing House Split Receipts.

#### **No responsibility in regard to sub-division and certification**

108. The Exchange, the Governing Body, the Clearing House, and its officials shall not be liable or responsible for the due or accurate performance of any duties in connection with the issue of Split Receipts or certification of transfers nor for the verification of documents presented to them for sub-division or certification nor for any duties in connection with the transmission of certificates or other documents to the Company nor for any loss arising from the certification of forged transfers or from issue of Clearing House Split Receipts or Certified Traders against forged certificates or forged documents nor for the execution, mis-execution or non-execution of the duties in question.

#### **Clearance by members only**

109. Members only shall be entitled to clear and settle contracts through the Clearing House.

#### **Delivery and payment through Clearing Member Banks**

110. The Clearing House shall maintain a list of Banks, Trust Companies and other firms approved by the Governing Body (hereinafter called Clearing

Member Banks) which may act for members and their constituents in giving and taking delivery of securities, transfer deeds and any other documents and in making and accepting payment for the same in the manner prescribed in these Bye-laws and Regulations.

#### **Clearing Member Banks to observe bye-laws and regulations**

111. Clearing Member Banks must agree to abide by the Bye-laws and Regulations relating to delivery, payment and the clearing and settlement of transactions through or as directed by the Clearing House and the resolutions, orders, notices, directions and decisions of the Governing Body or the Managing Director thereunder.

#### **Inclusion in or removal from approved list**

112. The Governing Body may in its sole discretion from time to time add names to the list of Clearing Member Banks and remove names therefrom.

#### **Notices and directions**

113. All members and Clearing Member Banks shall comply with the instructions, resolutions, orders, notices, directions and decisions of the Governing Body in all matters connected with the operations of the Clearing House.

#### **Clearing House procedure to be prescribed by the Governing Body**

114. (a) The procedure to be followed by members and Clearing Members Banks in respect of Settlement of transactions and all matters connected with the operations of the Clearing House and the fees, fines and penalties to be paid shall be prescribed by the Governing Body and be in accordance with the provisions prescribed in the relating Regulation.

#### **Members' clearing clerks**

(b) A member may nominate two clearing clerks who shall be competent to sign on behalf of such member all Clearing forms, vouchers claim notes, receipts and other documents and transact on his behalf all such business as is necessary to be transacted in all matters connected with the operations of the Clearing House.

#### **Attendance at Clearing House**

(c) A member who has to give or take delivery of securities, transfer deeds or any other documents or to make or accept payments shall either attend personally in the Clearing House or be represented by his clearing clerk at the proper time and no member shall be entitled to demand delivery of securities, transfer deeds or any other documents or payment outside the Clearing House.

#### **Clearing Number**

(d) A member shall be allotted a Clearing Number which must appear on all forms used by the member in all matters connected with the operations of the Clearing House.

#### **Clearing Forms**

(e) The Clearing Forms to be used by the members shall be supplied by the Clearing House and unless otherwise permitted no other forms shall be used.

#### **Signing of Clearing Forms**

(f) All Clearing Forms shall be signed by a member or his clearing clerks.

#### **Specimen signatures**

(g) A member shall file with the Clearing House Specimens of his own signature and of the signatures of his clearing clerks. The specimen signatures card shall be signed by the member and his clearing clerks in the presence of an officer of the Exchange or of the Clearing House.

#### **Comparison with specimen signatures when necessary**

(h) When handling over the securities the Clearing House shall compare the signature appearing on the acknowledgement receipt with specimen signature in its possession. In the case of any other clearing forms the Clearing House may make such comparison in its entire discretion but it shall be under no obligation to do so nor shall it in any manner incur any responsibility or be subject to any liability by reason of having done or omitted to do so.

#### **Charging for Clearing Forms**

(i) The Secretary shall from time to time prescribe the charges for the Clearing Forms to be supplied by the Clearing House.

#### **Clearing House Split and Balance Receipts**

(j) The Clearing House Split and Balance Receipts shall be in the form prescribed from time to time.

#### **Prescribed banks**

115. The Governing Body may from time to time prescribe the banks with whom all members shall maintain an account for the purpose of clearing operations.

#### **Clearing Forms to be prescribed**

116. All Clearing Forms, which term shall include Clearance Lists, Delivery and Receive Orders, Settlement Sheets, Balance Sheets, Claim Notes, Vouchers and all other forms and documents used for the purpose of the Clearing House shall be in the form prescribed.

### **Penalty**

117. The Governing Body or the Managing Director may from time to time prescribe the penalty to be imposed in every case of failure by any member to comply with the Bye-laws and Regulations relating to the Clearing House and the clearance and settlement of transactions through the Clearing House and the Resolutions, orders, notices, directions and decisions of the Governing Body or the Managing Director thereunder for not filing or for any error or omission or illegible entry in filling up any forms or other documents required by the Clearing House in the course of its operations or for any delay in submitting any such forms or documents to the Clearing House.

### **False or misleading statements**

118. The Governing Body may fine, suspend or expel and the Managing Director may fine or suspend a member who does not submit any forms or returns or statements required by the Exchange or who makes any false or misleading statement in the

Clearing Forms required to be submitted in conformity with these Bye-laws and Regulations or any resolutions, orders, notices, directions and decisions of the Governing Body or the Managing Director thereunder.

### **Charges for clearing**

119. The Governing Body shall from time to time prescribe the scale of clearing charges for the clearance and settlement of transactions through the Clearing House.

### **Clearing House Bills**

120. The Clearing House shall periodically render bills for the charges, fees, fines and other dues payable by members to the Exchange as well as the charges, fines and other dues payable on account of the business cleared and settled through the Clearing House and debit the amount payable by members to their accounts. All such bills shall be paid within a week of the date of which they are rendered.



**INTEREST, DIVIDENDS, RIGHTS AND CALLS****Buying and Selling**

121. In these Bye-laws and Regulations the term 'buyer' shall include the buying client and the buying member acting as his stock broker and agent and shall also denote the buying member when he is dealing on his own account as a principal according as the context indicates. Similarly in these Bye-laws and Regulations, the term 'seller' shall include the selling client and the selling member acting as his stock broker and agent and shall also denote the selling member when he is dealing on his own account as a principal, according as the context indicates.

**Interest, Dividends and Rights**

122. The buyer shall be entitled to receive all voucher, coupons, dividends, bonus issues, rights and other privileges which may appertain to securities bought cum voucher, cum coupon, cum dividend, cum bonus, cum rights etc. and the seller shall be entitled to receive all vouchers, coupons, dividends, bonus or rights issue and other privileges which may appertain to securities sold ex voucher, ex coupon, ex dividend or ex bonus, ex rights etc.

**Transactions in Government Securities accrued interest not included in price**

123. (a) Transactions in Government Securities shall be deemed not to include the accrued interest in the price and the accrued interest shall be accounted for between buyer and seller.

**Payment of accrued interest on Government Securities**

(b) Since the interest is not included in the current price, the seller shall be entitled to receive from the buyer the interest accrued on the Government securities to the day of payment less the amount of income-tax, including sur-charge, if any deductible at source.

**Accrued interest when seller fails to deliver the securities**

(c) When the seller fails to deliver the securities on the due date for delivery, the accrued interest shall cease and the buyer shall not be liable to pay the accrued interest after the date on which the delivery should have been made.

**Accrued interest when buyer fails to pay for the securities**

(d) When the buyer fails to pay for the securities on the date on which the contract falls due for

payment, the seller shall be entitled to claim the interest accrued upto the date on which the payment is actually made, for the days between the day on which payment should have been made and the day on which the payment is actually made.

**Government securities and bearer securities when cum and ex voucher or coupon**

124. Transactions in Government Securities and bearer securities shall be ex voucher and ex coupon from the date on which the interest becomes payable.

**Members when liable for vouchers and coupons**

125. In respect of cum voucher and cum coupon transactions in Government securities and bearer securities the buyer shall be entitled to receive from the seller Government Securities with the interest due for the period undrawn and bearer securities with the coupon sheets attached. When such securities are delivered after collecting the interest for the period or without the vouchers or without the coupons due for encashment the full value of the vouchers or coupons shall be paid by the seller to the buyer in lieu of the missing vouchers or coupons.

**Transactions in debenture**

126. Transactions in debentures shall be deemed to include the accrued interest in the contract price and the seller shall not be entitled to claim from the buyer the interest either for the current period or for the earlier periods remaining unpaid.

**Transactions when cum dividend, cum bonus or cum rights and when ex dividend, ex bonus or ex rights**

127. (a) All transactions in non-Specified securities shall be ex dividend or ex bonus or ex rights from the date on which the Transfer Books of the Company commences the closure or on the record date fixed for the purpose of dividend or cash bonus or bonus or rights issue.

(b) All transactions in Specified Securities shall be ex dividend ex bonus or ex rights from the first day of the settlement commencing from or following such date, commencing or following the date on which the Transfer Books of the Company commences the closure or the record date fixed for the purpose of dividend or bonus or rights issue.

Provided that the Governing Body or the Managing Director may fix and notify any other date on and from which transactions shall be ex dividend or ex bonus or ex rights in respect of any security.

(c) All transactions done before such date shall be deemed to be cum dividend or cum bonus or cum rights.

**When information of dividend or bonus or rights issue not available**

(d) When information regarding the dividend or cash bonus or bonus or rights issue be not available to the Exchange for the security to become ex dividend or ex bonus or ex rights as provided in sub-clause (a) above all transactions in non-Specified Securities (other than Government Securities) shall be ex dividend or ex bonus or ex rights from the date following the date on which the information of the dividend or bonus or rights issue becomes available. All transactions in Specified Securities shall be ex dividend or ex bonus or ex rights from the first day of the settlement commencing from or following the date on which the information of the dividend or bonus or rights issue become available.

**Members responsible for adjustment in respect of ex dividend transactions**

128. (a) On receipt of official information by the Exchange cancelling or altering the declaration of a dividend all ex dividend transactions entered into before such date shall be subject to re-adjustment between the buyer and the seller.

(b) If the declaration of a dividend be cancelled the ex-dividend price shall be increased by the amount of the dividend.

(c) If there be a decrease or increase in the dividend declared the ex dividend price shall respectively be increased or decreased by a corresponding amount of difference.

(d) The difference in respect of ex dividend transactions entered into and settled before such date shall be immediately re-adjusted between the buyer and the seller and the members shall be personally responsible among themselves and to their clients for effecting such re-adjustment.

(e) Ex-dividend transactions which have been entered into but not settled before such date shall be completed on the footing of the revised prices.

**When Transactions cease to be Ex Dividend or Ex Bonus or Ex Rights**

129. On receipt of official intimation by the Exchange cancelling the declaration of a dividend or bonus or rights in respect of any security all transactions in that security thereafter shall be entered into as if the security had not become cum dividend.

**Deduction from cum Dividend Purchase Price**

130. (a) In respect of a cum dividend transaction the buyer may deduct from the purchase price the dividend recommended or declared to which he is entitled provided the securities are delivered to him by the seller or by the Clearing House on the seller's behalf less than twentyone days before the record date or date of commencement of the closure of the Transfer Books for the purpose of dividend.

**Members Responsible for Adjustment in Respect of Cum Dividend Transactions**

(b) If securities in respect of which the amount of dividend or cash bonus has been deducted from the cum dividend price by the buyer are lodged for registration with the Company before the record date or date of commencement of closure of the Transfer Books of the Company for the purpose of dividend or if the actual dividend subsequently declared or paid by the company be different from the amount deducted from the cum dividend purchase price the dividend or the difference as the case may be shall be re-adjusted between the buyer and the seller and the members shall be personally responsible between themselves and to their clients for effecting such re-adjustment.

**Temporary Settlement**

131(a) In respect of a cum bonus or cum rights transaction when the securities are delivered to the buyer by the seller or by the Clearing House on the seller's behalf on or after the record date or date of closure of the Transfer Books for the purpose of bonus issue or rights the buyer may deduct from the purchase price an amount equivalent to the proportionate value of the bonus issue or rights to which he is entitled or such other amount as the Governing Body or the Managing Director may fix and notify in that behalf and retain such amount with himself as a deposit in the case of Non-Specified Securities or deposit it with the Clearing House in the case of Specified Securities.

(b) The buyer may also make such deduction and in respect of both specified and Non-Specified Securities he shall deposit the amount with the Clearing House or the Exchange when the securities are delivered to him during the period of twentyone days preceding the record date or date of commencement of closure of the Transfer Books for the purpose of bonus issue or rights.

**Payment of Deposit**

(c) The amount retained as a deposit by the buyer or deposited with the Clearing House or the Exchange representing the balance due on the transaction as provided in sub-clauses (a) and (b) shall be paid to the seller when he delivers the bonus issue or rights at any time on or before the date fixed by the Governing Body or the Managing Director for the purpose.

**Buying-In**

(d) If the seller fails to deliver the bonus issue or rights within the prescribed time the buyer shall be entitled to buy-in against him in accordance with the Bye-laws and Regulations relating to closing-out.

**Letters of Renunciation**

132 (a) Rights shall be settled by letters of renunciation when such letters are issued by the Company. When proper letters of renunciation are delivered or tendered to the buyer on or before the twentyfirst day preceding the date fixed for the receipt of applications by the Company or before such other date as the Governing Body or the Managing Director may fix and notify in that behalf the seller shall be

relieved of all further liability in respect of such bonus or right issues. A member shall not be bound to accept letters of renunciation not tendered within the prescribed time.

(b) If the claims to bonus issues or rights be not settled by delivery of letters of renunciation within the prescribed time the seller shall be responsible for obtaining the bonus issues or rights and the buyer shall not be under any obligation to pay for the rights in advance. The seller shall also be responsible to the buyer for the extra expense of transfer if any.

#### **Application For Rights**

133 (a) In respect of a cum rights transaction when the buyer is entitled to the new securities issued as rights in respect of the existing securities the buyer shall specially claim the rights in writing from the seller on or before the twentyfirst day preceding the date fixed for the receipt of applications by the Company.

#### **Seller's Liability and Duty**

(b) Notwithstanding what is contained in sub-clause (a) if the seller be in possession of the new securities he shall be responsible for them to the buyer if claimed by the buyer on the date following the last date fixed for the receipt of applications by the Company. Should the seller not be in possession of the new securities he shall be bound to render every assistance to the buyer in tracing them.

#### **Payment in Respect of Rights**

134 (a) When letters of renunciation are not issued all payments as and when required by the company in respect of rights are to be advanced to the seller by the buyer.

#### **Selling Client Trustee for the Buying Client**

(b) The amount in respect of rights shall be paid by the buyer to the seller allowing him adequate time to pay the amount to the Company. In such cases members shall not be personally responsible and the selling client shall be deemed a trustee for the buying client in respect of such payments.

#### **Buyer to Bear Transfer Expenses**

(c) When letters of renunciation are not issued by the Company the expenses of transferring the rights to the name of the buyer shall be borne by the buyer.

#### **Members when Liable for Dividend or Rights**

135 (a) In respect of cum dividend, cum bonus or cum rights transactions members shall be personally responsible for the dividend, bonus or rights issue on the securities only when such securities are delivered to the buyer by the seller or by the Clearing House on the seller's behalf less than twentyone days before the record date or date of commencement of closure of the Transfer Books of the Company for the purpose of dividend, bonus or rights issue.

#### **Responsibilities and Obligation of Buying and Selling Clients and Transferers**

(b) Members shall not be liable between themselves or to their clients for dividend, bonus or rights issued save as provided in sub-clause (a) but nothing contained therein shall affect the responsibilities and obligations of the buying and selling clients (which terms shall where the buying members and/or selling members have dealt on their own accounts principals include such members) between themselves as principals or the liability of the transferors in respect of such dividend, bonus or rights issued.

#### **Claim within Six Months**

136. All claims in respect of vouchers, coupons, interest dividend etc. shall be adjusted as provided herein within six months from the date of payment of the interest, dividend and members shall not be personally responsible between themselves or to their constituents thereafter.

#### **Payment of Calls by Sellers where Obligatory**

137. If securities are purchased on condition that they should be paid up in respect of a particular call (with interest or other charges if any) and the selling client has not paid the same the buyer may claim from the seller the call money so payable with interest and other charges if any and shall be entitled to set off such call money with interest and other charges if any against the price for the securities.

#### **Payment of Calls by Sellers where Optional**

138 (a) A seller of partly paid securities may before effecting delivery pay and call made on the securities through the last day fixed for payment of such call may not have expired. The seller shall be entitled to claim the call money so paid from the buyer and may add the same to the purchase price of the securities.

#### **Seller to bear Extra Stamp Duty**

(b) When the seller has paid a call before the expiry of the last day fixed for payment of the extra stamp duty to be paid as a result thereof shall be borne by the seller and the buyer may deduct the same from the purchase price for the securities.

#### **Payment of Calls by Buying Client**

139. The buying client shall pay every call or contribution which becomes payable after delivery of the certificate and transfer. However he shall not be obliged to pay such call or contribution if the Company refuses to register the transfer on account of lien. In any other case if the buying client fails to make such payment and the selling client is compelled to pay the same the selling client shall be entitled to recover the same from the buying client notwithstanding that the buying client applied to the Company to transfer the shares and that the transfer is refused.



### **Member not Liable for Calls**

140. Save as provided in these Bye-laws and Regulations no member shall in respect of any transactions made by him on behalf of a client and as broker only be deemed personally liable or responsible in any way to any party for the payment of calls made by a company.

### **Company Liquidation**

141. If a Company be wound up at the date of the contract or between the date of the contract and the due date of delivery the buyer shall nevertheless pay to the seller the purchase money and the seller shall be entitled to recover from the buyer any contribution or call required to be paid even though the liquidator refuses to consent to the transfer. If the buyer or his nominee cannot get the

securities transferred to his name the seller shall if required to do so by the buyer and at the buyer's cost arrange for the assignment of the transferor's title to and the rights in the securities to the buyer or his nominee and for the execution of an irrevocable Power of Attorney in favour of the buyer or his nominee to enable him to recover any return of capital and dividends becoming payable after the date of the contract in respect of the securities bought.

### **Delivery of Equivalent Securities**

142. In respect of a contract in securities which shall become or are exchangeable for new or other securities under a scheme of reconstruction or reorganisation, amalgamation or merger or any change in the name of the company concerned, the seller shall deliver to the buyer either the securities contracted for or the equivalent securities and/or cash and/or other property receivable as the case may be.



## CHAPTER 10

### DELIVERY OF SECURITIES

#### Pace of Delivery and Payment

143. The delivery of all documents and papers and the payment in respect of all contracts to which these Bye-laws and Regulations apply shall be within the George Town area of the City of Madras and the parties shall be bound and deemed to give and take delivery in Madras.

#### When Documents Good Delivery

144. (a) The documents specified hereunder shall constitute good delivery when tendered in fulfilment of contracts to which these Bye-laws and Regulations apply.

#### Promissory Notes Good Delivery

(b) In the case of Government Securities Promissory Notes transferable by endorsement shall constitute good delivery unless there is a condition in the contract for the delivery of Stock certificates or bearer bonds.

#### Delivery of Promissory Notes in Prescribed Lots

(c) Promissory Notes shall be tendered in the following lots, namely :—

- (i) one piece or more (of any denomination) not exceeding ten in all when the transaction is in multiples of Rs. 25,000 ; and
- (ii) pieces of Rs. 25,000 each when the transaction is in multiples of Rs. 25,000 and
- (iii) one piece for every Rs. 25,000 and one piece or more (of any denomination) not exceeding ten in all for the remainder when the transaction is in a lot exceeding Rs. 25,000 and not in multiples thereof.

#### Promissory Notes when Bad Delivery

(d) Promissory Notes shall not be deemed good delivery—

- (i) if the endorsement thereon are not valid, regular and in proper form; or
- (ii) if there is a cross endorsement; or
- (iii) if the interest is left undrawn for more than one year; or
- (iv) if the interest payable on or after the due date of delivery is drawn by the seller when he is in default; or

- (v) if the interest is not payable in Madras unless when the interest is not so payable a Public Debt Office has certified or affixed its stamp on the Promissory Notes that the documents required to be registered in connection with any endorsements appearing thereon have been duly registered with it.

#### Renewal Fees for Government Securities

(c) In the case of Government securities the buyer is entitled to claim from the seller the amount of renewal fees—

- (i) when there are less than three blank cages for endorsement on the back of the Promissory Note; or
- (ii) when there are more than two enfacements for payment of interest ; or
- (iii) when there are six or less than six half-yearly interest columns blank if the latest date of maturity exceeds three years; or
- (iv) when the number of half-yearly interest columns blank is less than the number of half-yearly interest periods up to the latest date of maturity if such date does not exceed three years.

#### Bearer Certificates when Good Delivery

(f) In the case of bearer securities bearer certificates shall constitute good delivery, provided;

- (i) the coupon sheets are attached to the certificates;
- (ii) the certificates tendered in the case of Government Securities are in the lots prescribed for Promissory Notes; and
- (iii) the certificates tendered in the case of other than Government securities are in lots of trading units.

#### Certificates Accompanied by Transfer Deeds Good Delivery

(g) In the case of securities other than Government Securities and bearer securities, certificates accompanied by duly executed transfer deeds shall constitute good delivery.

(h) The following guidelines relating to good or bad delivery of documents shall govern delivery of Securities other than Government Securities and bearer Securities.

### **Allotment Letters when Good Delivery**

(i) Allotment letters shall be accepted in lieu of share certificates accompanied by duly executed transfer deeds are tendered in the case of securities whose allotment letters do not call for further monies and are accepted by the companies for registering transfers.

### **Allotment Receipts**

(ii) Where allotment monies are called for in the allotment letters such allotment letters shall be accompanied by properly discharged allotment receipts.

### **When Allotment Letters Cease to be Good Delivery**

(iii) Allotment letters shall continue to be good delivery till the share/debenture certificates are issued by the company.

### **Split and Transfer Receipts When Good Delivery**

(j) Split Receipts issued by the Clearing House and by Companies and Pucca Transfer or Transmission Receipts issued by Companies shall be accepted in lieu of certificates as good delivery.

### **Certified Transfers**

(k) (i) Certified transfers shall constitute good delivery.

### **Mode of Certification**

(ii) The certification on the transfer deed may be by the Clearing House or by the Company concerned. The certification shall state the distinctive numbers of the securities covered by the transfer deeds and the relative certificate has been forwarded to or lodged with the company. Transfer deeds with any mode of conditional certification are not good delivery.

### **Date of Certification**

(iii) All certified transfer deeds shall bear the date of certification.

### **Particulars to be filled in Certified Transfer Deeds**

(iv) In the case of all certified transfer deeds the full name and address of the transferor shall be mentioned in the body of the transfer as also distinctive numbers of the securities. Otherwise certified transfer deeds shall not be good delivery.

### **Delivery in Prescribed Lots and Renewal Fees**

145. (a) The lots in which documents are to be delivered in settlement of contracts and the renewal fees payable by the seller to the buyer for renewal of documents shall be determined in accordance with the provisions prescribed hereunder.

### **Delivery in Prescribed Lots**

(b) (i) Unless stipulated when entering into the transaction one certificate for the exact trading unit or in any event not more than three certificates in all accompanied by not more than three transfer deeds in all making up in the aggregate the trading unit or where the contract is for an odd lot certi-

cates making-up in the aggregate the odd lot may be delivered in settlement of contracts in securities (other than Government Securities and bearer securities) but the transfer deeds delivered shall be for the exact amount of the trading unit and where the contract is for an odd lot for the exact amount of the odd lot or for smaller amounts making-up in the aggregate the odd lot.

### **Delivering Member to Pay Extra Stamp and Transfer Charges**

(ii) When smaller lots than the trading unit or the odd lot are delivered as provided in sub-clause (i), the delivering member shall pay the additional stamp duty and transfer fees and the consolidation fees to consolidate the certificates into the trading unit or the exact amount of the odd lots as the case may be.

### **Certified Transfers, Split Receipts and Allotment Letters to be in Trading Unit**

(iii) The provisions relating to trading units contained in sub-clauses (i) and (ii) shall also apply to Certified Transfer deeds, Split Receipts issued by the Clearing House, Split or Transfer or Transmission Receipts issued by Companies and Allotment Letters delivered in settlement of contracts as provided in these Bye-laws and Regulations.

### **Renewals Fees for Securities (Other than Government Securities)**

(c) In the case of securities (other than Government Securities) when a fee is charged by any Company for a new Certificate in lieu of an old one either worn out or incapable of carrying further endorsements the fee shall be payable by the seller.

### **Transfer Stamp and Registration Fees**

146. Transfer stamp duties payable to Government and fees charged by Companies for registering transfers of securities and known as transfer fees shall be paid by the buyer but where transfer deeds have been given in lots other than the prescribed lots the extra stamp duty, transfer fees and consolidation charges to be paid as a result thereof shall be paid by the seller to the buyer.

### **Delivery in Part**

147. The buyer is entitled to refuse and may not pay for securities unless the documents tendered in performance of a transaction are regular, genuine and valid but he shall accept such portion of the securities as may be in order provided it is in lots of trading unit and may buy in the undelivered portion in accordance with the Bye-laws and Regulations relating to closing-out.

### **Closing-out on refusal to accept Delivery**

148. When documents which are regular, genuine and valid are duly tendered in performance of a transaction and not accepted by the buyer the seller

shall be entitled to sell-out the same against him in accordance with the Bye-laws and Regulations relating to closing-out.

### **Disputed Documents**

149. (a) When documents tendered for delivery in settlement of contracts are considered by the buyer to be defective in their title, ownership, genuineness, regularity or validity or considered not in order for any other reason and the objection is not accepted by the seller, the documents shall be returned by the buyer to the seller and disputes relating thereto shall be decided by arbitration as hereunder.

### **Arbitration relating to Good or Bad Delivery of Documents**

(b) If the objection raised on defects pointed out by a receiving member be not accepted by the delivering member any three members of the Arbitration Committee shall adjudicate in the matter.

### **Delivery when Complete**

(c) If the disputed documents are held by the arbitrators to be in order the buyer shall accept them as good delivery and failing such acceptance the seller shall be entitled to sell-out the same against the buyer in accordance with the Bye-laws and Regulations relating to closing-out.

### **Delivery when not Complete**

(d) If the disputed documents are held to be defective by the arbitrators delivery shall not be complete and when such documents have been delivered through the Clearing House the seller shall immediately (irrespective of whether he intends to proceed in appeal or not) refund to the buyer their value at the ruling market price. The seller shall then remove the defect or in the alternative deliver to the buyer other regular, genuine and valid documents in place of the defective documents within fourteen days of the decision of the arbitrators or when an appeal has been preferred within seven days of the decision in appeal.

### **Buying-in**

(e) If the seller fails to remove the defect or in the alternative deliver to the buyer other regular, genuine and valid documents in place of the defective documents within the period prescribed in sub-clause (d) the buyer shall be entitled to buy in such securities against the seller in accordance with the Bye-laws and Regulations relating to closing-out.

### **Delivery of Partly Paid Securities**

150. (a) In all transactions for partly paid securities entered into subject to the stipulation that the

buyer shall have the securities registered in the name of the transferee the procedure to be followed for delivery and registration shall be as hereunder. If the registration on delivery be not completed in the manner prescribed the seller shall be entitled to sell-out the securities against the buyer in accordance with the Bye-laws and Regulations relating to closing-out.

### **Stipulation regarding Registration of Partly Paid Securities**

(b) (i) In all transactions for partly paid securities entered into subject to the stipulation that the buying member shall have the securities registered in the name of the transferee the delivering member shall deliver the necessary transfer forms to the receiving member within fourteen days from the date of sale. The transfer forms duly executed by the transferee shall be returned within fourteen days of the date of such delivery. Thereupon the delivering member shall arrange to lodge the documents with the Company for transfer which shall be at the buyer's risk and cost and obtain payment from the receiving member against delivery to the Clearing House.

### **Deposit and Selling-out on failure to return executed Transfers**

(ii) If the duly executed transfer deeds be not returned before the due date as provided herein the receiving member shall pay to the delivering member the price of the securities on the delivering member depositing the certificates with the Clearing House. If within fifteen days of such payment and deposit the duly executed transfer deeds be not returned the delivering member shall be entitled to sell-out the securities against the receiving member in accordance with the Bye-laws and Regulations relating to closing-out.

### **Documents considered Doubtful or Defective**

(c) If any documents be considered doubtful or defective by the member receiving delivery whether through or outside the Clearing House the defects shall be stated specifically on a memorandum and the documents returned to the delivering member before 4 P.M. on the very day if it be a week day and before 2 P.M. on the very day if it be a Saturday on which delivery is received. In case of Specified Securities documents may be so returned to the Clearing House which shall inform the delivering member immediately. When the documents are not so returned the receiving member shall have recourse against the delivering member only in accordance with the Bye-laws and Regulations relating to documents and Registration.

**DOCUMENTS AND REGISTRATION****Documents when deemed to be Defective**

151. (a) (i) For purpose of these Bye-laws and Regulations documents shall be deemed defective—

(ii) If there is a defect in the title of the transferor, ownership, genuineness, regularity or validity; or

(iii) if there is any lien on account of any debt or liability of the transferor due to the company or otherwise; or

(iv) if there is any attachment or injunction or other legal proceedings or order of Court or other statutory authority sowed on the company prior to the date of delivery to the buyer for which the seller may be held responsible;

(b) And the defect shall be deemed to be removed when the title is cleared and/or the ownership, genuineness and validity of the documents established and/or the irregularity rectified and/or the documents released from the lien, attachment, injunction or other legal proceedings or order of Court or other statutory authority.

**Members when liable for Defective Government Securities**

152. In respect of Government Securities delivered in fulfilment of contracts to which these Bye-laws and Regulations apply the selling member acting as a broker who receives payment against delivery of the defective documents shall be personally responsible for them to the buyer to whom the same are delivered, provided the documents pass through the hands of the selling member or his agent when delivery is effected and provided further the buyer gives intimation in writing to the selling member within thirty days of the date on which the documents are delivered to him by the selling member or by the Clearing House on behalf of the selling member and establishes to the satisfaction of the Arbitration Committee that the documents are defective.

**Original Selling Member when liable for Defective Corporate Securities**

153. (a) In respect of corporate securities delivered in fulfilment of contracts to which these Bye-laws and Regulations apply the original selling member i.e., the member who is the first to deliver the defective documents in the market on or after or less than fourteen days before the record date or date of commencement of closure of Register of Members of the Company for the purpose of interest, dividend, bonus, rights or any other benefit accruing to the securities or for the purpose of the Annual General

Meeting of the Company, acting as a broker who receives payment against delivery of defective documents shall be personally responsible for them to the buyer to whom the same are delivered or any subsequent buyer who shall be entitled to approach directly the original selling member, provided any one of the following conditions is fulfilled namely :

(i) the documents are lodged with the company for registration at any time prior to the first record date or date of commencement of closure of the Register of Members of the Company, for the purposes aforesaid subsequent to the thirteenth day following the date on which the documents are delivered by the original selling member or by the Clearing House on behalf of the original selling member and the buyer or any subsequent buyer gives intimation in writing to the original selling member within thirty days after the date of receipt of communication from the Company refusing to register the transfer on the ground that the documents are defective; or

(ii) the documents are lodged with the Company for registration on or before the thirtieth day after the date on which the documents are delivered by the original selling member or by the Clearing House on behalf of the original selling member or should the Register of Members of the Company be closed on such thirtieth day the documents are lodged for registration on or before the fifth working day after the date on which the Register of Members re-open and the buyer or any subsequent buyer gives intimation in writing to the original selling member within thirty days after the date of receipt of communication from the Company refusing to register the transfer on the ground that the documents are defective; or

(iii) the buyer or any subsequent buyer gives intimation in writing to the original selling member at any time prior to the first record date or date of closure of the Register of Members of the Company for the purpose aforesaid subsequent to the thirteenth day following the date on which the documents are delivered by the original selling member or by the Clearing House on behalf of the original selling member or at any time within thirty days of the date on which the documents are so delivered whichever of the two periods is longer and establishes to the satisfaction of the Arbitration Committee that the documents are defective.

### Subsequent Selling Member when Liable for Defective Corporate Securities

(b) In respect of corporate securities delivered in fulfilment of contracts to which these Bye-laws and Regulations apply if the original selling member who is responsible for defective documents as provided in sub-clause (a) fails to meet his liability any of the subsequent selling members acting as a broker who receives payment against delivery of such documents shall be personally responsible for them to the buyer to whom the same are delivered or any subsequent buyer, provided one of the following two conditions is fulfilled namely :

- (i) the documents are lodged with the Company for registration on or before the thirtieth day after the date on which the documents are delivered by such subsequent selling member or by the Clearing House on behalf of such subsequent selling member or should the Register of Members of the Company be closed on such thirtieth day the documents are lodged for registration on or before the fifth working day after the date on which the Register of Members reopens and the buyer or any subsequent buyer gives intimation in writing to such subsequent selling member within thirty days after the date of receipt of intimation from the Company refusing to register the transfer on the ground that the documents are defective ; or
- (ii) the buyer or any subsequent buyer gives intimation in writing to such subsequent selling member within thirty days of the date on which the documents are delivered by such subsequent selling member or by the Clearing House on behalf of such subsequent selling member and establishes to the satisfaction of the Arbitration Committee that the documents are defective.

### Members when not Liable

154. If the documents be not lodged within the prescribed period or if intimation in writing that the documents are defective be not given by the buyer to the original and subsequent selling members as provided in these Bye-laws and Regulations then except in the case of fraud or bad faith on the part of the selling members they shall not be personally liable for the defective documents either to the buying members or to the clients of the buying members and the liability of such selling members to the buyers as also the liability of the buying members to their clients shall cease in all respects.

### Liability in event of Unforeseen Circumstances

155. In the event of unforeseen circumstances not specifically covered by these Bye laws and Regulations in relation to defective securities, the Governing Body may determine the liability of the parties on equitable considerations.

### Rights and Liabilities of Buying and Selling Clients

156. Nothing contained in these Bye-laws and Regulations shall effect the rights and obligations of the buying and selling clients between themselves as principles in any action at law or in any other proceedings and the buying and selling members shall be bound to render every assistance to the buying clients in any action at law or other proceedings they may take against the selling clients who receive payment against delivery of the defective documents.

### Liability of Selling Constituents to Selling Members

157. The selling clients who receive payment against delivery of defective documents shall be liable for the same in all respects and such clients shall fully indemnify the selling members acting as agents on their behalf.

### Rectification or Replacement of Defective Documents

158. The selling member responsible for the defective documents shall within fifteen days from the date of receipt of intimation of the objection remove the defect or in the alternative deliver to the buyer other regular, genuine and valid documents in their place :

Provided however, that the Managing Director in his discretion and subject to such conditions may enlarge the aforesaid period of fifteen days in special circumstances and in particular :

- (i) when the documents are suspected or alleged to be forged or reported or alleged to be stolen or have passed into police custody for purposes of investigation the time may be enlarged till the fact that the documents are forged or stolen property is conclusively established to the satisfaction of the Managing Director or proved in a Court of Law;
- (ii) when an attachment, injunction or similar other order of Court or other statutory authority has been served on the issuer of the security restraining it from transferring the documents the time may be enlarged till an application for setting aside such order has been finally rejected by the proper authority;
- (iii) when the security is by or pursuant to some special law ostensibly placed under any disability not applicable to all other securities of the same issue and the documents are not transferred on the ground of such ostensible disability or when the issuer of the security or the agent of such issuer declines for any reason peculiar to that security as compared with other securities of the same issue to transfer the documents the time may be enlarged till the legal point has been decided by the proper authority.

In such and similar case when the time is enlarged the selling member shall be bound to comply with such conditions as the Managing Director may impose and shall also place such amount in deposit

with the Exchange as the Managing Director directs on the application of the buyer or on his own accord.

Provided, however, that in cases where the time for rectification or replacement of documents gets enlarged beyond 60 days from the date of receipt of intimation of the defect or objection for any reason, the Selling Member and/or the original registered holder shall be personally responsible to deliver to the buyer other regular, genuine and valid documents in their place or shall be liable to pay the buyer the value of the securities at the ruling market price.

### **Refund of Moneys**

159. If the selling member responsible for the defective documents fails to remove the defect or in the alternative to deliver to the buyer other regular, genuine and valid documents in their place as provided hereinabove in these Bye-laws and Regulations the buyer shall be entitled to claim from the selling member refund of their value at the then ruling market price.

### **Documents to be returned and Power of Attorney to be executed on Refund**

160. When claiming the refund the buyer shall return to the selling member the defective documents if they have not been impounded and shall procure for the selling member and at the selling member's expenses an irrevocable power of attorney executed by the transferee in favour of the selling member or his nominee empowering the selling member or his nominee to institute any suit or legal proceedings on behalf and in the name of the transferee and to litigate the dispute and to have the objection to the title of documents cleared and to obtain the return of the documents in question if they have not been already returned to him and also to sign and execute all transfer deeds and other writings and do all such other acts and things as may be necessary for effectually transferring the documents to the selling member or his nominee if they be subsequently registered by the issuer of the security in the name of the transferee.

### **Rectification of Replacement after Refund**

161. A refund of monies relating to defective documents shall not operate as cancellation of the relative transaction and contract. The selling member shall within thirty days from the date of such refund or within such further time as the Governing Body or the Managing Director may from time to time allow either remove the defect or in the alternative deliver to the buyer other regular, genuine and valid documents in place of the defective documents and the buyer shall be bound to accept such rectified or substitute documents in fulfilment of the relative transaction and contract and return to the selling member the monies refunded to him.

### **Responsibility of Selling Member for Dividend Bonus and Rights**

162. If the selling member fails to rectify or replace the defective documents and deliver them to

the buyer at least fourteen days before the record date or date of commencement of the closure of the Register of Members of the Company for the purpose of interest, dividend, bonus, rights or any other benefit accruing to the shareholders of the Company the selling member shall be responsible to the buyer for the interest, dividend, bonus, rights or other benefit declared by the Company and for the income-tax deduction certificates if any in respect of the interest, dividend or for the equivalent in cash of the amount of income-tax if any deducted at source. The selling member shall also be responsible to the buyer for the extra expense of transfer if any.

### **Buying-in**

163. If the selling member fails to make refund of monies or to remove the defect or replace the defective documents within the prescribed period the buyer shall be entitled to buy-in the securities against him in accordance with the Bye-laws and Regulations relating to closing-out.

### **Appointment of Loss and Damage**

164. If the selling member responsible for the defective documents fails to refund the moneys and/or to hand over the interest, dividend, bonus, rights or other benefits declared by the Company and the income-tax deduction certificate if any or the equivalent in cash of the amount of income-tax if any deducted at source and/or to pay the damages if any arising from buying-in as provided in these Bye-laws and Regulations he shall be liable to be declared a defaulter. In the event of the defective documents having passed through the Clearing House and the Clearing House shall assess such loss and damages pro rata against the original contracting parties with whom such defaulter had outstanding sale transactions in such securities as shown in his Clearing Forms. Each such party shall pay the amount of loss and damages to the buyer through the Clearing House on receipt of notice of the amount of such settlement. If a contracting party fails to pay his share of the pro rata and damages he shall be declared a defaulter and thereupon the procedure to be followed shall be the same as if he were the selling member who has been declared a defaulter. This procedure shall be repeated as many times as may be necessary in relation to each succeeding party in interest until the loss and damages are fully recovered.

### **Sale not Conditional on Transfer**

165. A sale of securities is not conditional on the Company transferring the securities to the name of the buyer. On the sale of securities the only obligation on the seller is to tender documents that are not defective and he shall not be deemed to guarantee that the Company will transfer the securities to the name of the buyer nor shall he incur any liability by reason of the refusal of the Company to do so.

### **Fresh Transfer on Refusal of Company**

166. When a Company objects to a transferee and refuses to register a transfer the transferor shall on request and on the original transfer being returned to him, sign a fresh transfer deed.

## CHAPTER 12

### CLOSING-OUT OF CONTRACTS

#### Closing-out

167. (a) A contract in securities made subject to the Rules, Bye-laws and Regulations of the Stock Exchange may be closed-out by buying-in or selling-out against a defaulting member on his failure to comply with any of the provisions relating to delivery, payment and settlement of transactions or on any failure to fulfil the terms and conditions subject to which the transaction has been made.

(b) Closing-out shall be effected against the defaulting member in accordance with the Bye-laws and Regulations relating to closing-out if on the due date—

- (i) the selling member fails to deliver the securities; or
- (ii) the buying member fails to make payment for the securities; or
- (iii) the buying member fails to issue a Receive-and Pay Order for securities; or
- (iv) the buying member fails to return the completed transfer deed when partly paid securities have been sold subject to such stipulation; or
- (v) the delivering member fails to remove the defects pertaining to any documents delivered by him or fails to replace such defective documents; or
- (vi) the delivering member fails to deliver the rights or bonus issue which are to be delivered on cum-rights or cum-bonus transactions under these Bye-laws and Regulations.

(c) A contract in securities shall be closed-out by buying-in and selling-out against the defaulting member on the advice of the Clearing House on the Settling Day if a member fails to pay within the prescribed time for the securities that are to be received by him or deliver the securities that are to be delivered by him in accordance with the clearing schedule and forms lodged by him with the Clearing House.

#### Entitlement to Close Transactions in Securities

168. (a) A member shall be entitled to close-out a transaction in securities against a defaulting member who fails to deliver documents sold or pay for documents delivered on the date of failure as per the terms of the contract prescribed in the Bye-laws and

Regulations or upto any day thereafter which shall not be later than the fifteenth day following the due date of delivery and payment in accordance with the Bye-laws and Regulations.

(b) All such closing-out of transactions against defaulting members shall be executed on the Floor of the Exchange in the open market either by the member himself or on his behalf by the Clearing House.

(c) However, when it is not possible to close-out a transaction in securities on any day for want of ready sellers or buyers, the closing-out shall be done on the following business day or days on the Floor of the Exchange, which shall not be later than the fifteenth day following the due date of delivery and payment in accordance with the Bye-laws and Regulations.

(d) In respect of any security whether Specified Security or Non-Specified Security, if closing-out be not completed within fifteen days following the due date of delivery and payment in accordance with the Bye-laws and Regulations, all such transactions not so closed out in time, as specified herein above, shall stand squared up automatically at the highest market rate recorded at any time for the security during the preceding 30 days and all contracts shall be deemed to be closed-out at that rate between the buyer and seller including the clients of members, whereupon the defaulting party shall pay to the party entitled to close-out the difference between the contract price and the closing-out prices.

Provided however that any such difference becoming payable to the defaulting member shall be forfeited and the difference paid to the Exchange.

#### Closing-out when Effected

169. Without prejudice to the generality of the provisions contained in sub-clauses (a) and (b) closing-out may be effected in any security whether specified security or Non-specified security in any specific circumstances as the Governing Body may deem fit, and instruct in its absolute discretion.

#### Closing-out of Contracts with Member Declared Defaulter

170. If a member be declared a defaulter all members having dealing with him in any security shall determine all outstanding contracts by closing-out against him in accordance with the Bye-laws and Regulations relating to default.



### **Closing-out of Contracts with Deceased Members**

171. On the death of a member the Governing Body may at its discretion give permission to his heirs or legal representatives to settle all his outstanding transactions in any security in the market as per the terms of the contract. In the event of such permission not being applied for or granted members shall be notified accordingly and they shall forthwith determine all outstanding contracts by closing-out against the deceased member either in the open market or by members themselves on their own as principals at prices then current in the market. The loss if any on such closing-out shall be claimed from the heirs or legal representatives of the deceased member and the profit if any shall be paid to them after obtaining the sanction of the Governing Body. If the heirs or legal representatives of the deceased member fail to pay the amount claimed by members on such closing-out it shall be deemed as if the deceased member had been declared a defaulter and the Bye-laws and Regulations relating to default shall apply.

### **Closing-out against Defaulting or Deceased Member or Constituent**

172. A member may effect closing-out against a member who has been declared a defaulter or a deceased member or a defaulting or deceased constituent either by himself by buying or selling such securities for his own account as a principal, provided that the price is fair and justified by the condition of the market.

### **Closing-out of Transactions settled through the Clearing House**

173. (a) In respect of transactions settled through the Clearing House closing-out shall be effected on the advice of the Clearing House.

### **Closing-out in Case of Off-setting Contracts**

(b) When a member holding for the account of his different clients contracts both for sale and purchase in the same settlement that offset each other and has offset such contracts the closing-out of such contracts against the defaulting client may be effected by the member directly instead of through the Clearing House. In such cases a member may either himself buy-in or sell-out the securities in the open market or may buy the securities from or sell the securities, to the defaulting client on his own account as a principal, provided that the price is fair and justified by the conditions of the market.

### **Tender before Closing-out**

174. If the member against whom closing-out is to be effected tenders compliance in accordance with the provisions of the Bye-laws and Regulations relating to delivery, payment and settlement of contracts or the terms and conditions subject to which the transaction has been made at any time before the securities have been actually closed-out by buying-in or selling-out the member entitled to close-out shall accept the same in fulfilment of the transaction.

### **Postponement by Managing Director**

175. When during closing-out there is no seller or buyer of securities at a price which is deemed reasonable or when such securities are not obtainable or saleable in the open market the closing-out shall be postponed to the following day and shall be so postponed from day to day until a seller or buyer be found and such deferment shall not relieve the party in default of any resulting damages.

Provided however the postponement shall not be later than fifteen days following the due date of delivery and payment in accordance with the Bye-laws and Regulations.

### **Postponement by the Governing Body**

176. The Governing Body may defer closing-out in any particular case if it is considered that a fair market to close-out is not available or that the securities are out of the control of the seller for payment of calls or the receipt of interest, dividends, bonus or rights or that the default is due to the existence of a special situation but no such deferment shall relieve the party in default of any resulting damages or free the immediate parties of their liabilities.

### **Suspension or Postponement of Closing-out**

177. The Governing Body may suspend or postpone buying-in or selling-out in respect of any security or securities and from time to time extend or postpone the period of such extension or postponement when circumstances warrant such suspension or postponement desirable in the public interest. The liability of intermediaries in respect of contracts in such securities settled through the Clearing House shall continue during the period of such suspension or postponement.

### **Securities Bought-in but Undelivered**

178. Securities bought-in and not delivered on the next business day may be again bought-in for immediate delivery and any loss and damage resulting therefrom shall be paid by the member causing such further buying-in, but however any difference becoming payable to the defaulting member shall be forfeited and the difference paid to the Exchange.

### **Securities Sold-out but not Paid for**

179. Securities sold-out and not paid for on the next business day may be again sold-out for immediate payment without further notice and any loss and damages resulting therefrom shall be paid by the member causing such further selling-out, but however, any difference becoming payable to the defaulting member shall be forfeited and paid to the Exchange.

### **Defaulting Party not entitled to Profit**

180. The party against whom the closing-out is effected shall not be entitled to the difference or profit which may arise from the closing-out against him, but however any difference becoming payable to the defaulting party shall be forfeited and paid to the Exchange.

### **Loss on Closing-out on Advice of Clearing House on account of Discrepancy**

181. If there be a loss when closing-out is effected on the advice of the Clearing House as a result of any discrepancy in the Clearing Forms lodged with the Clearing House by a member it shall be paid forthwith to the Clearing House by the member responsible for the discrepancy.

### **Difference arising from Closing-out**

182 (a) When closing-out is effected on the advice of the Clearing House on account of a member failing to give or take delivery of all or any of the securities according to the Clearing Forms lodged by him with the Clearing House the resulting differences (if any) due by such member shall be paid by him forthwith to the Clearing House and the difference (if any) due to such member shall be deposited with the Exchange by the Clearing House.

### **Closing-out against Defaulter**

(b) When closing-out is effected as provided in sub-clause (a) and the member concerned is declared a defaulter the difference arising from closing-out shall be recovered from or distributed amongst the members with whom such defaulter had transactions in accordance with the Bye-laws and Regulations relating to default.

### **Default if Closing-out Loss and Damage not paid**

183. If any member against whom transaction is closed-out under the provisions of these Bye-laws and Regulations fails to make payment of the money difference between the contract price or the making-up price as the case may be and the closing-out price and of the damages if any, within twentyfour hours of receiving notice thereof he shall be declared a defaulter.



## CHAPTER 13

### DEALINGS BY MEMBERS

183 (a). In respect of any transactions in securities in the market, the Exchange does not recognise any one other than its own Members as parties and every member is directly and primarily liable to every other member with whom he concludes a transaction for its due performance and fulfilment in accordance with the Rules, Bye-laws and Regulations of the Exchange whether such transaction is for the account of a client of the member or for the account of the member himself as principal.

(b) Except to the extent and in the manner provided for by these Rules, Bye-laws and Regulations every contract for purchase or sale of securities whether made between two members or between a Member and a client, shall be deemed to have been made, for the performance of the contract as between two principals and each party to the contract shall be bound to fulfil the same and entitled to claim performance and institute or maintain legal proceedings in his name as principal.

#### **All Transactions and Contracts Subject to Rules, Bye-laws and Regulations.**

184. All transactions and contracts entered into by members in securities in which dealings are permitted on the Exchange whether in Specified Securities, Non-Specified Securities listed on the Exchange or Permitted Securities listed on the other recognised Stock Exchanges in India, shall in all cases be deemed to have been made subject to the

Rules, Bye-laws and Regulations of the Exchange which shall be a part of the terms and conditions of all such transactions and contracts and all transactions and contracts shall be subject to the exercise by the Governing Body and the Managing Director of the powers with respect thereto vested in it or him by the Rules, Bye-laws and Regulations of the Exchange.

#### **Inviolability of Transactions.**

185. (a) No transactions on the Stock Exchange shall be annulled by the Governing Body or the Managing Director except upon a specific allegation of fraud or wilful misrepresentation or upon a prima facie evidence of such material mistake in the transaction as in the judgment of the Governing Body or the Managing Director renders the case fit for adjudication.

#### **Annulment by Resolution**

(b) The annulment of a transaction under sub-clause (a) shall be done only by a direction of the Governing Body or the Managing Director and any direction so given shall be final and effective forthwith.

#### **Transactions by Members**

186. Members carrying on business on the Exchange shall be entitled to enter into transactions in the market in their own names as principals.

## CHAPTER 14

### BROKERAGE AND CONTRACT NOTES

#### Brokerage

187. (a) Save as otherwise provided brokerage shall be charged and collected by members upon the execution of all orders on behalf of non-member clients in respect of purchase or sale or carry-over of securities made for them. Members are entitled to charge brokerage at rates not exceeding the official prescribed from time to time.

(b) Unless otherwise revised by the Governing Body, the following shall be the official Scale of brokerage.

#### OFFICIAL SCALE OF BROKERAGE

| Description                                                                                                                                 | Brokerage<br>Rs.                                                     |
|---------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|
|                                                                                                                                             | On Face Value                                                        |
| (i) Securities of the Government of India and Stat Government on face value:                                                                |                                                                      |
| (a) under Rs. 25,000                                                                                                                        | 0.50%                                                                |
| (b) Rs. 25,000 or over                                                                                                                      | 0.75%                                                                |
| (ii) Loans and Debentures of Port Trusts, Municipal Corporations and Similar Other Bodies                                                   | 0.50%                                                                |
| (iii) Debentures of Joint Stock Companies                                                                                                   | 1.00%                                                                |
| (iv) Shares of Joint Stock Companies when the contract price per share exceeds Rs. but does not exceed Rs. Per share                        |                                                                      |
|                                                                                                                                             | Rs. Ps.                                                              |
| 0                      10                                                                                                                   | 0.40                                                                 |
| 10                     15                                                                                                                   | 0.50                                                                 |
| 15                     20                                                                                                                   | 0.60                                                                 |
| 20                     25                                                                                                                   | 0.70                                                                 |
| 25                     30                                                                                                                   | 0.80                                                                 |
| 30                     40                                                                                                                   | 1.00                                                                 |
| 40                     50                                                                                                                   | 1.25                                                                 |
| 50                     60                                                                                                                   | 1.50                                                                 |
| 60                     80                                                                                                                   | 2.00                                                                 |
| 80                    100                                                                                                                   | 2.50                                                                 |
| 100                  400                                                                                                                    | 3.00 plus 0.50 for every Rs. 25 or part thereof in excess of Rs. 100 |
| 400                  ..                                                                                                                     | 10.00 plus 0.50 for every Rs. 50 part thereof in excess of Rs. 400.  |
| (v) The lowest brokerage per contract shall be Rs. 10.                                                                                      |                                                                      |
| (vi) The scale provided (i) to (v) above is exclusively of service charges and does not apply to underwriting or the placing of new issues. |                                                                      |

#### Minimum Brokerage

188. (a) Save as otherwise provided, minimum brokerage shall be charged on all transactions in Government Securities and loans and debentures of Port Trusts, Municipal Corporations and similar other bodies at rates not less than 50% of the scale prescribed herein and in debentures and shares of Joint Stock Companies at rates not less than 40% of the said scales.

(b) In respect of a transaction of sale or purchase of Government Securities on tap, a member shall not be required to charge any brokerage on the sale and he may at his discretion charge reduced brokerage on the purchase at rates not less than one-half of the minimum prescribed herein.

(c) In the case of simultaneous switchover from one investment to another for the same client in Government Securities, a member may at his discretion waive brokerage on either the purchase or the sale but not on both purchase and sale. In such cases, he may at his discretion charge reduced brokerage at rates not less than 50% of the minimum prescribed herein and in the case of a switchover of investment in short-dated securities maturing with three years from the date of the transaction at rates not less than 25 per cent of the said minimum.

(d) On any transaction in loans and debentures of Port Trusts, Municipal Corporations and similar other bodies, a member may at his discretion charge reduced brokerage at rates not less than 60% of the minimum prescribed herein.

(e) On any transaction in shares of Joint Stock Companies which is closed within twentyeight business days by a corresponding transaction in the same security for the same constituent, a member may at his discretion charge reduced brokerage at rates, not less than 25% of the minimum prescribed herein, and in case the transaction is closed within three business days, a member may at his discretion waive brokerage on either the original transaction or the closing transaction and charge brokerage on the other at rates not less than 20% of the said reduced brokerage.

(f) On any transaction for the Settlement in Specified Securities, a member may at his discretion charge reduced brokerage on transactions of purchase or sale at rates not less 25% of the minimum prescribed herein and on carry-over transactions at rates not less than 25% of the said reduced brokerage.

(g) On arbitrage transactions a member may at his discretion charge brokerage at rates not less than

50% of the reduced brokerage chargeable as provided herein.

#### **Brokerage in case of compulsory carry-over**

189. A Member is entitled to charge brokerage at rates not exceeding 20% of the official scale when a transaction is required to be compulsorily carried over from Settlement to Settlement in accordance with the provisions of these Bye-laws and Regulations.

#### **Brokerage on calls**

190. A member buying securities on which calls have been pre-paid by the seller may charge brokerage on the purchase price plus the amount of such calls added together.

#### **Brokerage on transactions between non-members/clients**

191. A member may charge brokerage to more than one client on a transaction put through by him directly between two non-member/clients.

#### **Brokerage on arbitrage transactions**

192. A member shall charge brokerage to a non-member/client on arbitrage transactions.

#### **Underwriting commission and brokerage on new issues and offers for sale**

193. A Member may in his discretion charge such brokerage or commission for underwriting or placing or acting as a broker or entering into any preliminary arrangement in respect of any floatation or new issue or offer for sale of any security as he may agree upon with the issuer or offerer or with the principal underwriters or brokers engaged by such issuer or offerer.

#### **Brokerage on applications**

194. Brokerage or commission on all tenders or applications by or through members for submission or purchase in respect of any floatation or new issue or offer for sale of any security shall be on the terms offered by the issuer or offerer or by the underwriters or official brokers engaged by such issuer or offerer.

#### **Rebate not allowed**

195. No allowance, kickback, rebate, return or division of brokerage or commission of any nature or character shall be made by a member to any client in respect of any transaction or to any applicant whose tender or application for subscription or purchase has been submitted by or through him or to any other person except as herein provided.

#### **Brokerage for members of other stock exchanges**

196. A Member may share brokerage with members of other recognised Stock Exchanges with whom business in securities is permitted under the provisions of Rules, Bye-laws and Regulations of the Exchange.

#### **With whom brokerage may be shared**

197. (a) A member may share brokerage as provided in sub-clause (b) with an authorised assistant or authorised clerk in his own exclusive employment. He may similarly share brokerage with any other person introducing a client provided such person—

- (i) is not one for or with whom members are forbidden to do business under the Rules, Bye-laws and Regulations of the Exchange;
- (ii) is not an authorised assistant or authorised clerk or employee in the employment of another member;
- (iii) does not act as a broker within a distance of fifty miles of the City of Madras.

#### **Percentage of share of brokerage**

(b) A member may pay his authorised assistant or authorised clerk a share not exceeding 50% and any other person sharing brokerage as provided in sub-clause (a) a share not exceeding 40% of the brokerage charged to the client introduced by him.

#### **Rebate or return disallowed**

(c) An authorised assistant, authorised clerk or other person sharing brokerage shall not make any allowance, kickback, rebate or return such brokerage directly or indirectly to the client introduced by him or to any other person or agent.

#### **Indemnity against default of client**

(d) An Authorised Assistant or authorised clerk with a Member shall be deemed to have undertaken to fully and completely indemnify the member from any loss which such member may sustain by the default of the client introduced by him in fulfilling his obligations.

#### **Default by client**

(e) In the event of any default by a client introduced by him to a member with whom he shares brokerage, the amount due shall be paid forthwith to the member by the authorised assistant, authorised clerk or other person introducing the defaulting client.

#### **Liability of authorised assistant, authorised clerk or other person**

(f) If the authorised assistant, authorised clerk or other person sharing brokerage fails to pay the amount due by the defaulting client introduced by him then at his risk and cost the member shall be entitled to take such proceedings against the defaulting client and/or make such settlement or compromise with him as he in his discretion deems advisable. The acceptance of a promissory note from the defaulting client for the whole or part of the amount due from him shall not release the authorised assistant, authorised clerk or other person sharing brokerage with the member from his liability to pay to the member the

original amount due from the defaulting client nor shall any settlement or compromise with the defaulting client diminish the liability of the authorised assistant, authorised clerk or other person sharing brokerage who shall pay to the member the unrealised balance of the original amount due from the defaulting client and the costs and expenses incurred in the course of realisation.

#### Arbitration

(g) Any dispute between a member and an authorised assistant, authorised clerk or other person sharing brokerage with him in respect of any matter to which sub-clauses (d), (e) and (f) apply shall be referred to arbitration and decided in accordance with the Bye-laws and Regulations relating to arbitration of dispute between members.

#### Contract Notes

198. (a) In respect of transactions in securities, Members shall render Contract Notes in the prescribed forms to non-members|clients which shall state that the contract is subject to the Rules, Bye-laws and Regulations and practices customs and usages of the Exchange and subject to arbitration as provided in the Rules, Bye-laws and Regulations of the Exchange and subject to the jurisdiction of the Courts in Madras. The Contract Notes shall also specifically mention that it shall be a term of the Contract that

any dispute arising of the Contract shall be referred to arbitration and decided as provided in the Rules, Bye-laws and Regulations, practices, customs and usages of the Exchange, without any need for further fresh consent of the parties for arbitration. The name or names of the member or members who is or are partner or partners or the sole proprietor of a firm shall be printed on the contract notes. The Contract Notes shall also be in such forms as will be provide that the words 'Member of the Madras Stock Exchange', shall immediately follow the signature.

#### Contract Notes

199. Contract Notes issued by Members to clients when acting for them as agents and when dealing with them as principals shall be in Form A and Form B respectively prescribed herein.

#### Signing of contract notes

200. A Contract Note shall be signed by the member or by his constituted attorney.

#### Signing of contract notes

201. In the case of a firm recognised under the Rules, Bye-laws and Regulation of the Exchange, every contract shall be signed only in the name of the firm and no contract shall be issued in the name of an individual partner or the sole proprietor of the firm.





## REFERENCE TO ARBITRATION

223 (a) All claims, whether the claims are admitted or repudiated, complaints, differences and disputes between a member and a non-member/client including an authorised assistant, authorised clerk or employee or any other persons arising out of or in relation to dealings, transactions, and contracts in securities made by them with a member of the Exchange subject to the Rules, Bye-laws and Regulations of the Exchange or with reference to anything incidental thereto or anything to be done in pursuance thereof or any question relating to the Rules, Bye-laws and Regulations and due fulfilment or any aspect relating thereto and any question whether such dealings, transactions and contracts have been entered into or not and the rights, responsibilities and obligations of any of the parties to a Stock Exchange transaction, shall all be subject to arbitration under the Rules, Bye-laws and Regulations of the Exchange and shall be referred to and decided by arbitration as provided for in the Rules, Bye-laws and Regulations and according to practices, customs and usages obtaining on the Exchange.

(b) It shall be a specific term of all the contracts entered into subject to the Rules, Bye-laws and Regulations of the Exchange that any dispute arising out of the contract or with reference to anything incidental thereto shall be referred to arbitration and decided as provided in the Rules, Bye-laws and Regulations and in accordance with the Practices, customs and usages of the Exchange without any need for further fresh consent of the parties to the contract for arbitration.

(c) It shall not be within the competence of a member or a non-member to raise any question whatsoever relating to the validity of the Rules, Bye-laws and Regulations or any point with reference to their construction, interpretation, meaning, significance and implication, all of which shall be matters of responsibility entirely and solely vested with the Governing Body in its absolute and uncontrolled discretion.

## CONTRACT CONSTITUTES ARBITRATION AGREEMENT

(d) An acceptance whether express or implied of a contract subject to arbitration as provided in sub-clause (a) with this provision for arbitration incorporated therein shall constitute and shall be deemed to constitute an agreement between the member and non-member/client concerned that all claims, differences and disputes of the nature referred to in sub-clause (a) in respect of all dealings, transactions and contracts in securities of all kinds shall be submitted to and decided by arbitration as provided in the Rules, Bye-laws and Regulations of the Exchange and in accordance with the Practices, customs and usages of the Exchange and that in respect thereof any question whether such dealings, transactions, and contracts have been entered into or not shall also be submitted to and decided by arbitration as provided in the Rules, Bye-laws and Regulations of the Exchange.

(e) For the purposes of the Rules, Bye-laws and Regulations, in respect of dealings or any transactions in Stock Exchange securities and other matters incidental or arising out of such dealings or transactions done by a non-member/client with a member, it shall be deemed to constitute as a term and condition of the contract that all questions and matters whatsoever relating thereto shall be submitted to arbitration as provided for in the Rules, Bye-laws and Regulations, without any further consent of the non-member/client or member concerned for arbitration.

## APPOINTMENT OF ARBITRATORS

224 (a). The Arbitration Committee shall consist of a dozen persons, six persons drawn from members of the Stock Exchange and six persons drawn from non-members representing Chambers of Commerce, Financial Institutions, eminent Advocates and professionals from Institutes of Company Secretaries and Chartered Accountants.

## APPOINTMENT OF ARBITRATORS AND UMPIRE FROM PANEL

(b) The appointment of arbitrators and umpire under these Bye-laws and Regulations shall in all cases be made only from the panel of Arbitrators constituted by the Exchange. Once the Arbitrators and Umpire are appointed they shall continue to proceed with the arbitration even if their tenure of appointment in the panel is over.

(c) All claims, differences and disputes required to be referred to arbitration under these Bye-laws and Regulations shall be referred to the arbitration of two members of the Arbitration Committee of the Exchange one arbitrator to be appointed by each of the respective parties to the dispute.

## APPOINTMENT OF ARBITRATORS BY THE GOVERNING BODY OR MANAGING DIRECTOR

225. On the submission of a proper application for arbitration alongwith necessary documents and papers relating to the case and on payment in advance of the fees for arbitration prescribed under these Bye-laws and Regulations by any party to a claim, difference or dispute the Governing Body or the Managing Director shall appoint an arbitrator.

(i) If, after one party has appointed an arbitrator ready and willing to act, there is failure, neglect or a refusal on the part of the other party to appoint an arbitrator ready and willing to act within fifteen days after service of the written notice of the appointment, of the arbitrator by the first party, OR

(ii) if either of the arbitrators dies or fails or neglects or refuses to act or becomes incapable of acting as an arbitrator before an award is made by them.

## 247. OPERATION OF CONTRACTS, MADRAS JURISDICTION

All dealings, transactions and contracts shall be subject to the Rules, Bye-laws and Regulations of the Exchange and every arbitration agreement to which the Rules, Bye-laws and Regulations of the Exchange apply shall be deemed in all respects to be subject to the Rules, Bye-laws and Regulations of the Exchange and shall be deemed to be and shall take effect as wholly made, entered into and to be performed in the City of Madras and the parties to such dealings, transactions, contracts and agreements shall be deemed to have submitted to the jurisdiction of the Courts in Madras, for the purposes of giving effect to the provisions of the Rules, Bye-laws and Regulations of the Exchange.



**34. NOTES AND COMMUNICATIONS TO MEMBERS/NON-MEMBERS/CLIENTS HOW TO BE SERVED**

Notices and communications to a member or non-member of client shall be served in any one or more or all of the following ways and any such notice or communication under (i) to (v) below shall be served at the ordinary business address and/or ordinary place of residence and/or at the last known address of the parties :

- (i) by delivery by hand;
- (ii) by sending by registered post;
- (iii) by sending under certificate of posting;
- (iv) by sending by express delivery post;
- (v) by sending by telegrams;
- (vi) by affixing on the door at the last known business or residential address;
- (vii) by oral communication to the party in the presence of a third person;
- (viii) by advertising at least once in any daily Newspaper published in Madras;
- (ix) by a notice posted on the notice board of the Exchange if no address be known.



NAME OF MEMBER

SUBJECT TO MADRAS JURISDICTION

FORM B NO .....

Contract Note issued by Member dealing with  
Constituents as Principals

ADDRESS :

Stamp as required under the Indian  
Stamp Act where necessary

Members : MADRAS STOCK EXCHANGE LTD, MaADRAS

To .....

Sir(s),

We have this day entered into the following transactions with you as PRINCIPAL(S) to PRINCIPAL(S)

| Securities SOLD TO You For.....Delivery/Clearing |                  |          |        |           | Securities BOUGHT FROM You For.....Delivery/Clearing |                  |          |        |           |
|--------------------------------------------------|------------------|----------|--------|-----------|------------------------------------------------------|------------------|----------|--------|-----------|
| Quantity                                         | Kind of Security | Ref. No. | Rate   | Brokerage | Quantity                                             | Kind of Security | Ref. No. | Rate   | Brokerage |
|                                                  |                  |          | Rs. P. |           |                                                      |                  |          | Rs. P. |           |
|                                                  |                  |          |        |           |                                                      |                  |          |        |           |
|                                                  |                  |          |        |           |                                                      |                  |          |        |           |
|                                                  |                  |          |        |           |                                                      |                  |          |        |           |
|                                                  |                  |          |        |           |                                                      |                  |          |        |           |
|                                                  |                  |          |        |           |                                                      |                  |          |        |           |

1. This contract is made subject to the Rules, Bye-laws and Regulations and Practices, Customs and Usages of the Madras Stock Exchange Ltd., Madras.
2. It is a specific term of this contract that any dispute arising out of this contract or with reference to anything incidental thereto shall be referred to arbitration and decided as provided in the Rules, Bye-laws and Regulations and in accordance with the Practices, Customs and Usages of the Exchange, without any need for further fresh consent of the parties to the contract for arbitration.
3. Brokerage has been charged at rates not exceeding the official scale of brokerage and is included in the price.
4. This contract is subject to the jurisdiction of the Courts in Madras.
5. In the event of any claim (whether admitted or not) difference or dispute arising between you and me/us out of these transactions the matter shall be referred to arbitration in Madras as provided in the Rules, Bye-laws and Regulations of the Madras Stock Exchange Ltd., Madras.
6. This contract constitutes and shall be deemed to constitute as provided overleaf an agreement between you and me/us that all claims (whether admitted or not), differences and disputes in respect of any dealings, transactions and contracts of a date prior or subsequent to the date of this contract (including any question whether such dealings, transactions or contracts have been entered into or not) shall be submitted to and decided by arbitration in Madras as provided in the Rules, Bye-laws and Regulations of the Madras Stock Exchange Ltd., Madras.
7. The provisions printed overleaf form a part of the contract.

Yours faithfully

For NAME OF MEMBER

PARTNER

Madras.....198

Member(s) of the Madras Stock Exchange Ltd.,  
Madras

(P.T.O.)

## REFERRED TO ARBITRATION

223(a) All claims, whether the claims are admitted or repudiated, complaints, differences and disputes between a member and a non-member/client including an authorised assistant, authorised clerk or employee or any other person arising out of or in relation to dealings, transactions, and contracts in securities made by them with a member of the Exchange subject to the Rules, Bye-laws and Regulations of the Exchange or with reference to anything incidental thereto or anything to be done in pursuance thereof or any question relating to the Rules, Bye-laws and Regulations and due fulfilment or any aspect relating thereto and any question whether such dealings, transactions and contracts have been entered into or not and the rights, responsibilities and obligations of any of the parties to a Stock Exchange transaction, shall all be subject to arbitration under the Rules, Bye-laws and Regulations of the Exchange and shall be referred to an arbitral tribunal as provided for in the Rules, Bye-laws and Regulations and according to Practices, customs and usages obtaining on the Exchange.

(b) It shall be a specific term of all the contracts entered into subject to the Rules, Bye-laws and Regulations of the Exchange that any dispute arising out of the contract or with reference to anything incidental thereto shall be referred to arbitration and decided as provided in the Rules, Bye-laws and Regulations and in accordance with the Practices, customs and usages of the Exchange without any need for further fresh consent of the parties to the contract for arbitration.

(c) It shall not be within the competence of a member or a non-member to raise any question whatsoever relating to the validity of the Rules, Bye-laws and Regulations or any point with reference to their construction, interpretation, meaning, significance and implication, all of which shall be matters of responsibility entirely and solely vested with the Governing Body in its absolute and uncontrolled discretion.

## CONTRACT CONSTITUTES ARBITRATION AGREEMENT

(d) An acceptance whether express or implied of a contract subject to arbitration as provided in sub-clause (a) with this provision for arbitration incorporated therein shall constitute and shall be deemed to constitute an agreement between the member and non-member/client concerned that all claims, differences and disputes of the nature referred to in sub-clause (a) in respect of all dealings, transactions and contracts in securities of all kinds shall be submitted to and decided by arbitration as provided in the Rules, Bye-laws and Regulations of the Exchange and in accordance with the Practices, customs and usages of the Exchange and that in respect thereof any question whether such dealings, transactions, and contracts have been entered into or not shall also be submitted to and decided by arbitration as provided in the Rules, Bye-laws and Regulations of the Exchange.

(e) For the purposes of the Rules, Bye-laws and Regulations, in respect of dealings or any transactions in Stock Exchange securities and other matters incidental or arising out of such dealings or transactions done by a non-member/client with a member, it shall be deemed to constitute as a term and condition of the contract that all questions and matters whatsoever relating thereto shall be submitted to arbitration as provided for in the Rules, Bye-laws and Regulations, without any further consent of the non-member/client or member concerned for arbitration.

## APPOINTMENT OF ARBITRATORS

224 (a). The Arbitration Committee shall consist of a dozen persons, six persons drawn from members of the Stock Exchange and six persons drawn from non-members representing Chambers of Commerce, Financial Institutions, eminent Advocates and professionals from Institutes of Company Secretaries and Chartered Accountants.

## APPOINTMENT OF ARBITRATORS AND UMPIRE FROM PANEL

(b) The appointment of arbitrators and umpire under these Bye-laws and Regulations shall in all cases be made only from the panel of Arbitrators constituted by the Exchange. Once the Arbitrators and Umpire are appointed they shall continue to proceed with the arbitration even if their tenure of appointment in the panel is over.

(c) All claims, differences and disputes required to be referred to arbitration under these Bye-laws and Regulations shall be referred to the arbitration of two members of the Arbitration Committee of the Exchange one arbitrator to be appointed by each of the respective parties to the dispute.

## APPOINTMENT OF ARBITRATORS BY THE GOVERNING BODY OR MANAGING DIRECTOR

225. On the submission of a proper application for arbitration alongwith necessary documents and papers relating to the case and on payment in advance of the fees for arbitration prescribed under these Bye-laws and Regulations by any party to a claim, difference or dispute the Governing Body or the Managing Director shall appoint an arbitrator.

(i) If, after one party has appointed an arbitrator ready and willing to act, there is failure, neglect or a refusal on the part of the other party to appoint an arbitrator ready and willing to act within fifteen days after service of the written notice of the appointment, of the arbitrator by the first party, OR

(ii) if either of the arbitrators dies or fails or neglects or refuses to act or becomes incapable of acting as an arbitrator before an award is made by them.

## 247. OPERATION OF CONTRACTS : MADRAS JURISDICTION

All dealings, transactions and contract shall be subject to the Rules, Bye-laws and Regulations of the Exchange and every arbitration agreement to which the Rules, Bye-laws and Regulations of the Exchange apply shall be deemed in all respects to be subject to the Rules, Bye-laws and Regulations of the Exchange and shall be deemed to be and shall take effect as wholly made, entered into and to be performed in the City of Madras and the parties to such dealings, transactions, contracts and agreements shall be deemed to have submitted to the jurisdiction of the Courts in Madras, for the purposes of giving effect to the provisions of the Rules, Bye-laws and Regulations of the Exchange.

**248. NOTES AND COMMUNICATIONS TO MEMBERS/NON-MEMBERS/CLIENTS HOW TO BE SERVED**

Notices and communications to a member or non-member or client shall be served in any one or more or all of the following ways and any such notice or communication under (i) to (v) below shall be served at the ordinary business address and/or ordinary place of residence and/or at the last known address of the parties :

- (i) by delivery by hand ;
- (ii) by sending by registered post ;
- (iii) by sending under certificate of posting ;
- (iv) by sending by express delivery post ;
- (v) by sending by telegrams ;
- (vi) by affixing on the door at the last known business or residential address.
- (vii) by oral communication to the party in the presence of a third person ;
- (viii) by advertising atleast once in any daily Newspaper published in Madras ;
- (ix) by a notice posted on the notice board of the Exchange if no address be known.



## CHAPTER 15

### RIGHTS, OBLIGATIONS AND RESPONSIBILITIES OF MEMBERS AND CLIENTS

#### All Contracts Subject to Rules, Bye-laws and Regulations

202. (a) All contracts made by a member for or with a non-member for the purchase or sale of securities whether in Specified Securities, Non-Specified Securities listed on the Exchange and Permitted Securities listed on the other recognised Stock Exchanges in India in which transactions are permitted on the Exchange shall in all cases be deemed made subject to the Rules, Byelaws Regulations, Practices, Customs and Usages of the Exchange which shall be a part of the terms and conditions of all such contracts and all contracts shall be subject to the exercise by the Governing Body or the Managing Director of all the powers with respect thereto vested in it or him by the Rules, Bye-laws and Regulations of the Exchange.

#### Performance of Contract in Madras

(b) The delivery of all documents and papers and the payment in relation to all contracts referred to in sub-clause (a) shall be within the City of Madras and except when delivery is taken and given and payment made and received from and to the Clearing House through Clearing Member Bank as to all contracts shall be bound to take and give delivery and make and receive payment at the office of the member concerned within the George Town area of the City of Madras.

#### Contracts Subject to Madras Jurisdiction

(c) In case of all claims (whether the claims are admitted or repudiated) references and disputes arising out of or in relation to all contracts referred to in sub-clause (a) the parties concerned shall be deemed to have agreed and acknowledged.

- (i) that such contracts have been entered into and are to be performed within the City of Madras;
- (ii) that they are subject to arbitration in accordance with the provisions relating to arbitration other than between Members contained in these Bye-laws and Regulations; and
- (iii) that they are subject to the jurisdiction of the Courts in Madras.

#### Broker's Lien

203 (a) When a client is indebted to a member in whatever manner, all securities and other assets lodged

with the member by such client or held by the member for and on behalf of such client and any cash lying to the credit of such client with the member shall all be subject to the lien of such member for any general balance of account or margin or other monies that may be due at any time by such client singly or jointly with any other to such member in respect of any business done subject to the Rules, Bye-laws and Regulations of the Exchange and all such securities, assets and cash lodged shall be deemed a general security for payment to such member of all such monies (including interest, commission, brokerage and other expenses) as may be due by such client in any manner.

#### Right to Sell

(b) A member entitled to lien or security as provided in sub-clause (a) shall be at liberty to sell, pledge or borrow money against such securities and assets in such manner and on such terms and at such time as he may deem advisable and may pay to himself or to any other any such money due to him by or due by him on behalf of such client in respect of business done subject to the Rules, Bye-laws and Regulations of the Exchange.

#### Constituent to Indemnify

204. Every member entering into any contract for the purchase or sale of any security or doing any act in relation thereto on the instructions of any client and on such client's account or request shall be entitled to be indemnified by such client as an agent acting on behalf of his principal.

#### Contracts by Members as Principals

205. A member shall not enter into any contract for the purchase or sale of securities as a principal with any client [other than a member of a Stock Exchange recognised under the Securities Contracts (Regulation) Act, 1956] unless he has secured the consent or authority of such client and discloses in the note, memorandum or agreement or purchase or sale that he is acting as a principal:

Provided that no such consent or authority of such constituent shall be necessary for closing-out any outstanding contract entered into by such client in accordance with these Bye-laws and Regulations if the member discloses in the note, memorandum, or agreement or purchase or sale in respect of such closing-out that he is acting as a principal.

### Members not Bound to Accept Instructions and Orders

206. A member shall not be bound to accept all or any of the instructions or orders clients for purchase, sale, havala, or carry-over of securities. He may in his absolute and uncontrolled discretion decline to accept any such instructions or orders for execution wholly or in part and shall not be bound to assign any reason therefor:

Provided that when a member is not prepared to carry out such instructions or orders either wholly or in part he shall immediately inform his constituent to that effect.

### Margin

207. A member shall have the right to demand from his client the amount of margin he has to provide under these Bye-laws and Regulations in respect of the business done by him for such client. A member shall also have the right to demand an initial margin in cash and/or securities from his client before executing an order and/or to stipulate that the client shall deposit a margin or furnish additional margin according to changes in market prices. The Client shall when called upon to do so by the member from time to time forthwith provide a margin and/or furnish additional margin as required under these Bye-laws and Regulations in respect of the business done for him by and/or as agreed upon by him with the member concerned.

### Client in Default

208 (a) A member shall not transact business directly or indirectly or execute an order for a client who to his knowledge is in default to another member unless such client shall have made a satisfactory arrangement to settle his account with the member who is his creditor.

### Deposit of Defaulting Clients' Monies and Securities Pending Arbitration

(b) On the application of a creditor who refers or has referred to arbitration his claim against any defaulting client as provided in these Bye-laws and Regulations the Secretary shall issue instructions against any member or members restraining him or them from paying or delivering to the defaulting client any monies or securities, upto an amount or value not exceeding the creditor member's claim payable or deliverable by him or them to the defaulting client in respect of transactions entered into subject to the Rules, Bye-laws and Regulations of the Exchange. On receipt of such instructions the member or members concerned shall forthwith deposit and the defaulting client shall be deemed to have authorised the member or members concerned so to deposit with the Exchange such monies and securities after satisfying his or their own dues if any arising out of transactions made subject to the Rules, Bye-laws and Regulations of the Exchange. Such deposit shall release the depositing member or members from all further liability and obligations to the defaulting client in

respect of the monies and securities deposited by him or them. The application of the creditor member pursuant to which the monies and securities are deposited with the exchange shall be deemed to form a part of the aforesaid reference to arbitration of his claim against the defaulting constituent. The monies and securities deposited shall be disposed of in terms of the award in arbitration and pending a decree shall be deposited with the court when filing the award unless the creditor member and the defaulting constituent mutually agree otherwise.

### Date of Delivery by Client

209 (a) In respect of a member selling securities on behalf of or buying securities from a client whether residing in the City of Madras or outside, the date on which he receives delivery of such documents from the selling client direct or from his bankers or agents in Madras, shall be deemed to be the date of delivery by the selling constituent.

### Delivery by Mofussil Client

(b) If the client resides outside the City of Madras and requests the member to take delivery of the documents outside the City of Madras and the member complies with the clients requests the documents shall be deemed to have been delivered only when the documents are actually received in the City of Madras notwithstanding that the client may deliver the documents to some branch office or agent of the Member or of the Member's Bank. If sent by post the documents shall be deemed to have been delivered on the day when the documents reach the member in the City of Madras.

### Delivery to Constituent

210 (a) In respect of a member buying securities on behalf of or selling his securities to a client whether residing in the City of Madras or outside the date on which the member delivers such documents to the buying client direct or his bankers or agents in Madras or draws a bill on the buying client through a Bank or sends an advice by post stating that the documents are ready for delivery shall be deemed to be the date of delivery to the buying client.

### Delivery to Mofussil Client

(b) If the constituent does not reside within the City of Madras and requests the member to give him delivery of the documents outside the City of Madras and the member complies with the client's request that the delivery shall be deemed to be complete as soon as the member delivers the documents to his own or the client's bankers or agents in the City of Madras. Such banker or agent shall be deemed to receive the documents for and on behalf of the client. The contracts shall be deemed to be performed on the due date if the member has within the due date delivered the documents to or drawn against them through the banker or agent in the City of Madras or posted the same in the City of Madras addressed to the client or advised the client by post that the documents are ready for delivery.

### **Client to deliver securities sold**

211. A client whether residing in the City of Madras or outside shall deliver to the member in the City of Madras by the due date any security which the member has sold for him or bought for him. The documents delivered must be valid, regular and in proper form and the delivery of any security sold for a client which the member is liable to deliver must be made in the Office of the member in the George Town Area of the City of Madras in time to enable the member to comply with the provisions in these Bye-laws and Regulations relating to such delivery.

### **Client to make such payment**

212. A client whether residing in the City of Madras or outside shall pay to the member in the office of the Member in the City of Madras by the due date all sums which the client is bound to pay and when a member is liable to pay such sums on behalf of the client the payment must be made in the Office of the Members in the George Town Area of the City of Madras at least one business day previous to the date on which the member is required to make payment in compliance with the provisions in these Bye-laws and Regulations relating to such payment.

### **Member when to close-out transactions against client**

213. (a) A member shall be entitled to close-out against a client any transaction in securities done on behalf of the client on the failure of the client to give delivery of securities sold by him or make payment for securities bought by him in due time in accordance with these Bye-laws and Regulations.

### **Closing-out of Clients Account—how effected**

(b) When closing-out of a client under the provisions of these Bye-laws and Regulations a member may close-out in the open market or he may himself assume or take over such transactions to his own account as a principal at prices which are fair and justified by the conditions of the market and any expense incurred or any loss arising from the closing-out shall become immediately payable and be borne by the client. The client shall forthwith pay any loss or damage which the member may sustain as a result or on account of such closing-out. When the closing out has been effected as a principal the contract note in respect of such closing-out shall disclose that the member is acting as a principal.

### **Member's/Client's Account—may be closed-out**

214. (a) On the failure of a client to pay the loss or damages sustained on closing-out effected against him by the member or to pay differences in due time in conformity with the provisions of these Bye-laws and Regulations the member may close-out such client's account either forthwith or any any time thereafter in his discretion during the time such client is in default.

### **Closure of market during default**

(b) If the market be closed at the time of or subsequent to default the member may close-out against the defaulting client on or after the re-opening of the market for dealings in such security or securities for immediate delivery.

### **Notice of and payment on closing-out**

(c) When the defaulting client's account is closed-out as provided in sub-clauses (a) and (b) the member shall immediately notify his client of such closing-out and any difference due on such closing-out shall be immediately payable by the defaulting client to the member.

### **Death of constituent**

215. A member may forthwith or at the earliest practicable date close-out all open transactions on account of client who has died and the difference due on such closing-out shall be payable on the ensuing due date of payment in respect of such contracts.

### **Closing-out in case of Bankruptcy**

216. A member may forthwith or at the earliest practicable date close-out all open transactions on account of a client who becomes bankrupt or insolvent or makes or attempts to make a composition with his creditors or with any of them or who shall have given any admission or intimation or indication of the fact that he will be unable to fulfil his obligations and the differences on such closing-out shall be payable on the ensuing due date of payment in respect of such contracts.

### **Member not liable to attend to registration of transfers**

217. A member shall not be deemed to be under any obligation to attend to the transfer of securities and the registration thereof in the name of the client. If he attends to such work in the ordinary course or at the request or desire or by the consent of the client he shall be deemed to be the agent of the client in the matter and shall not be responsible for loss in transit or for the Company's refusal to transfer not be under any other liability or obligation other than that specially imposed by these Bye-laws and Regulations. The stamp duty, the transfer fees and other charges payable to the Company, the fee for attending to the registration of securities and all incidental expenses such as postage incurred by the member shall become payable and be borne by the client.

### **Registration of securities when in name of member or nominee**

218. When the time available to the clients of a member is not sufficient for them to complete transfers and lodge the securities for registration before the closing of the Register of Members or the record date fixed by the company and where the seller is not liable for the interest, dividend, cash bonus, bonus or rights which the Company may have announced or declared the member may register the securities in his or his

nominee's name and recover the transfer fee, stamp duty and other charges from the buying client. The member shall give immediate intimation thereof to the buying client and shall stand indemnified for the consequences of any delay in delivery caused by such action.

#### **Client when to close-out against member**

219. (a) A client of a member shall be entitled to close-out against a member any transaction in securities done through the member on the failure of the member to give delivery of securities sold by him or make payment for securities bought in due time, in accordance with the Bye-laws and Regulations.

#### **Closing-out by client on member's failure to perform a contract**

(b) If a member fails to complete the performance of a contract by delivery or payment in accordance with the provisions of these Bye-laws and Regulations the client shall after giving notice in writing to the member close-out such contract through any other member of the Exchange within fifteen days from the date of default and any loss or damage sustained as a result of such closing-out shall immediately payable by the defaulting member to the client.

#### **Client to when close-out account**

220. (a) If a member be declared a defaulter or fails to pay the loss or damages sustained on closing-out effected against him by the client or to pay differences due by him to his client on the day following the Settling Day such client may be giving notice in writing close-out through any member of the Exchange all outstanding contracts either forthwith or at any time thereafter in his discretion during the time such member is in default.

#### **Closure of market during default**

(b) If the market be closed at the time of or subsequent to default the client may close-out against the defaulting member on or after the reopening of the market for dealing in such security or securities for immediate delivery.

#### **Notice of and payment on closing-out**

(c) When the defaulting member's account is closed-out as provided in sub-clauses (a) and (b) the client shall immediately notify the member of such closing-out and any balance due on such closing-out shall be payable immediately by the defaulting member to his client.

#### **No lien on clients securities**

221. If after delivering securities to the Clearing House on account of a client a member be declared a defaulter the client shall be entitled to claim and receive from the Clearing House either such securities or the value thereof at the altered making-up price subject to payment or deduction of the amount if any due by him to the defaulter on offering satisfactory proof to the Governing Body or Managing Director.

#### **Complaint by client**

222. When a complaint has been lodged by a client with the Exchange that any member has failed to implement his stock broking transactions the Governing Body shall investigate the complaint and if it is satisfied that the complaint is justified the Governing Body may suspend the member for such period or periods or take such other disciplinary action as it deems fit.

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## CHAPTER 16

### ARBITRATION BETWEEN MEMBERS AND NON-MEMBERS/CLIENTS

#### Reference to Arbitration

223. (a) All claims, whether the claims are admitted or repudiated, complaints, differences and disputes between a member and a non-member/client including an authorised assistant, authorised clerk or employee or any other person arising out of or in relation to dealings, transactions and contracts in securities made by them with a member of the Exchange subject to the Rules, Bye-laws and Regulations of the Exchange or with reference to anything incidental thereto or anything to be done in pursuance thereof or any question relating to the Rules, Bye-laws and Regulations and due fulfilment or any aspect relating thereto and any question whether such dealings, transactions and contracts have been entered into or not and the rights, responsibilities and obligations of any of the parties to a Stock Exchange transaction, shall all be subject to arbitration under the Rules, Bye-laws and Regulations of the Exchange and shall be referred to and decided by arbitration as provided for in the Rules, Bye-laws and Regulations and according to practices, customs and usages obtaining on the Exchange.

(b) It shall be a specific term of all the contracts entered into subject to the Rules, Bye-laws and Regulations of the Exchange that any dispute arising out of the contract or with reference to anything incidental thereto shall be referred to arbitration and decided as provided in the Rules, Bye-laws and Regulations and in accordance with the Practices, customs and usages of the Exchange without any need for further fresh consent of the parties to the contract for arbitration.

(c) It shall not be within the competence of a member or a non-member to raise any question whatsoever relating to the validity of the Rules, Bye-laws and Regulations or any point with reference to their construction, interpretation, meaning, significance and implication, all of which shall be matters of responsibility entirely and solely vested with the Governing Body in its absolute and uncontrolled discretion.

#### Contract constitutes arbitration agreement

(d) An acceptance whether express or implied of a contract subject to arbitration as provided in sub-clause (a) with this provision for arbitration incorporated therein shall constitute and shall be deemed to constitute an agreement between the member and non-member/client concerned that all claims, differences and disputes of the nature referred to in sub-clause (a) in respect of all dealings, transactions and contracts in securities of all kinds shall be submitted to and decided by arbitration as provided in the Rules, Bye-

laws and Regulations of the Exchange and in accordance with the Practices, customs and usages of the Exchange, and that in respect thereof any question whether such dealings, transactions, and contracts have been entered into or not shall also be submitted to and decided by arbitration as provided in the Rules, Bye-laws and Regulations of the Exchange.

(e) For the purposes of the Rules, Bye-laws and Regulations, in respect of dealings or any transactions in Stock Exchange securities and other matters incidental or arising out of such dealings or transactions done by a non-member/client with a member, it shall be deemed to constitute as a term and condition of the contract that all questions and matters whatsoever relating thereto shall be submitted to arbitration as provided for in the Rules, Bye-laws and Regulations, without any further consent of the non-member/client or member concerned for arbitration.

#### Appointment of Arbitrators

224. (a) The Arbitration Committee shall consist of a dozen persons, six persons drawn from members of the Stock Exchange and six persons drawn from non-members representing Chambers of Commerce, Financial Institutions, eminent Advocates and professionals from Institutes of Company Secretaries and Chartered Accountants.

#### Appointment of Arbitrators and Umpire from Panel

(b) The appointment of arbitrators and umpire under these Bye-laws and Regulations shall in all cases be made only from the panel of Arbitrators constituted by the Exchange. Once the Arbitrators and Umpire are appointed they shall continue to proceed with the arbitration even if their tenure of appointment in the panel is over.

(c) All claims, differences and disputes required to be referred to arbitration under these Bye-laws and Regulations shall be referred to the arbitration of two members of the Arbitration Committee of the Exchange one arbitrator to be appointed by each of the respective parties to the dispute.

#### Appointment of Arbitrators by the Governing Body or Managing Director

225. On the submission of a proper application for arbitration along with necessary documents and papers relating to the case and on payment in advance of the fees for arbitration prescribed under these Bye-laws and Regulations by any Party to a claim, difference or dispute the Governing Body or the Managing Director shall appoint an arbitrator :

- (i) if, after one party has appointed an arbitrator ready and willing to act, there is failure, neglect or refusal on the part of the other party to appoint an arbitrator ready and willing to act within fifteen days after service of the written notice of the appointment, of the arbitrator by the first party, or
- (ii) if either of the arbitrators dies or fails or neglects or refuses to act or becomes incapable of acting as an arbitrator before an award is made by them.

#### **Award by Arbitrators**

226. The arbitrators shall make their award within four months after entering on the reference or after having been called upon to act by notice in writing from any party or within such extended time as the Governing Body or the Managing Director may allow.

#### **Appointment of Umpire**

227. The arbitrators appointed by the parties or by the Governing Body or the Managing Director shall have the power to appoint a member of the Exchange as an umpire at any time and they shall do so if and when they differ as to their award.

#### **Appointment of Umpire by the Governing Body or the Managing Director**

228. The Governing Body or the Managing Director shall appoint an umpire :

- (i) if the arbitrators appointed fail for any reason within the time or extended time prescribed in these Bye-laws and Regulations to make an award or to appoint or to concur in the appointment of an umpire ; or
- (ii) if the Umpire fails for any reason to make his award within the time or extended time prescribed in these Bye-laws and Regulations ; or
- (iii) if the umpire dies or fails or neglects or refuses to act or becomes incapable of acting at any time before making this award.

#### **Umpire when to hear Reference**

229. The Umpire shall forthwith enter on the reference in the place of the arbitrators if the arbitrators :

- (i) allow the time or extended time prescribed in these Bye-laws and Regulations for making an award to expire without making an award ; or
- (ii) deliver to the umpire or to the Exchange a notice in writing stating that they cannot agree.

#### **Award by Umpire**

230. The Umpire shall make his award within two months after entering on the reference or within such extended time as the Governing Body or the Managing Director may allow.

#### **Notice of Award**

231. After making the award the arbitrators or umpire shall sign such award and shall issue a notice to the parties notifying them of the making and signing of the award.

#### **Award binding on Parties and their Representatives**

232. The parties to the reference shall in all respects and things and in every manner abide by and forthwith carry into effect the award of the arbitrators or umpire which shall be final and binding on the parties and their respective representatives notwithstanding the death of or legal disability occurring to any party before or after the making of the award and such death or legal disability shall not operate as a revocation of the reference or making of the award.

#### **Further Award**

233. Whenever an award made under these Bye-laws and Regulations directs that a certain act or thing be done by one party to the reference and such party fails to comply with the award the other party may make a fresh reference to arbitration as provided in these Bye-laws and Regulations for a further award for determining the dispute outstanding or the amount of damages or compensation payable by reason of such failure and the award therein may be filed separately or together with the original award.

#### **Filing of Award**

234. The arbitrators or umpire shall at the request of any party to the reference or any person claiming under such party or if so directed by the Court and upon payment of the fees and charges due in respect of the reference and award and of the costs and charges of filing the award cause the award or a signed copy of the award together with any depositions and documents which may have been taken and proved the arbitrators or umpire to be filed in Court.

#### **Fresh Reference on Annulment of Award**

235. Whenever an award given under these Bye-laws and Regulations is set aside by the Court the matter shall be again referred to arbitration as provided in these Bye-laws and Regulations and the claims differences and disputes shall be decided by arbitration only.

#### **Extension of time for making the Award**

236. The Governing Body or the Managing Director may if deemed fit whether the time for making the award has expired or not and whether the award has been made or not extend from time to time, the time for making the award.

### **Governing Body to Prescribe Arbitration Fees, Forms and Procedure**

237 (a) The fees to be paid, the forms to be used and the procedure to be followed in connection with a reference to arbitration under these Bye-laws and Regulations shall be such as are prescribed by the Governing Body from time to time.

#### **Forms**

(b) The Forms to be used in connection with a reference to arbitration under the provisions of the Rules, Bye-laws and Regulations of the Exchange shall be such as are prescribed by the Governing Body from time to time.

#### **Application for Arbitration**

(c) In every case when a claim, difference or dispute required to be referred to arbitration under the Rules, Bye-laws and Regulations of the Exchange has arisen any of the parties concerned may submit to the Exchange an application for arbitration (Form No. 1).

#### **Nomination and Notice of Appointment**

(d) An application for arbitration shall be accompanied by

- (i) duly completed notice (Form No. 2) appointing an arbitrator and calling upon the other party or parties to appoint an arbitrator.
- (ii) concise statement of the case in triplicate including a statement of account in triplicate; and
- (iii) Institution and Arbitration Fees.

#### **Reply to Arbitration. Application and Counter Claim**

(e) On receipt of an application for arbitration the Exchange shall forward (Form No. 3) the notice of appointment together with a copy of the statement of the case including a copy of the statement of account to the other party or parties to the claim, difference or dispute. The other party shall within fifteen days after service of written notice of appointment or within such extended time as the Governing Body or the Managing Director may allow, forward to the Exchange a reply to the application (Form No. 4) accompanied by :

- (i) duly completed form of nomination (Form No. 5) appointing an arbitrator;
- (ii) statement in triplicate of the case in reply; and
- (iii) statement in triplicate of the set-off or counter claim if any including statement of account in triplicate.

#### **Reply to Counter Claim**

(f) A copy of the statement of the case in reply and of the set-off or counter-claim if any shall be forwarded by the Exchange to the party making the application for arbitration who shall submit his reply to the set-off or counter claim if any within fifteen days.

### **Appointment of Arbitrator when no Nomination**

(g) If after one party has appointed an arbitrator there is failure, neglect or refusal on the part of the other party or parties to appoint an arbitrator within the prescribed or extended time, the Governing Body or the Managing Director shall appoint an arbitrator (Form No. 6).

#### **Umpire how Appointed**

(h) When appointing an Umpire the arbitrators shall complete the form of appointment (Form No. 7) before the due date. If they fail to concur in such appointment an intimation (Form No. 8) to that shall be given to the Exchange whereupon the Governing Body or the Managing Director shall appoint an umpire. The umpire shall signify in writing his acceptance of such appointment.

#### **Notice when Arbitrators Differ**

(i) If the arbitrators are unable to agree on their award they shall deliver a notice (Form No. 10) in writing to that effect either to the Umpire or to the Exchange.

#### **Intimation to the Umpire**

(j) If the arbitrators allow the time or extended time to lapse without making an award any party to the reference or any one of the arbitrators or the Exchange may give an intimation thereof to the umpire.

#### **Intimation Regarding Substitutes and other Appointments**

(k) Any party to a reference, arbitrator or umpire may give an intimation to the Exchange whenever circumstances arise in which the Governing Body or the Managing Director may appoint (Form No. 6) an arbitrator or umpire but the Governing Body or the Managing Director may make such appointment irrespective of whether such an intimation has been received or not.

#### **Notice of Hearing**

(1) The arbitrators or umpire shall fix the date, time and place of each hearing and notice of the hearing (Form No. 9) shall be given to the parties by the Exchange. In arranging the hearings the time within which the Award is required to be made and the time necessary to enable the parties to attend the hearing if they so desire shall be taken into consideration.

#### **Adjournment of Hearings**

(m) The arbitrators or umpire may adjourn the hearings from time to time.

#### **Extension of time for making Award**

(n) The arbitrators or umpire may from time to time apply (Form No. 11) to the Governing Body or the Managing Director for extension of time for making the award.

### Appearance

(o) The parties to the reference shall attend at the time and place appointed for the hearing of the reference either in person or subject to the provisions in that behalf in these Bye-laws and Regulations by any person duly authorised by them acquainted with all the matters in dispute or in question and shall answer all material questions relating to the dispute or question.

### Further Information

(p) The arbitrators or umpire shall have general authority to require from either of or both the parties to the reference such further statements, explanations and other information, evidence and materials as they or he may consider necessary for the adjudication of the claims, differences or dispute.

### Duties of Parties and Witnesses

(q) The parties to the reference and any witness on their behalf shall :

- (i) submit to be examined by the arbitrators or umpire on oath or affirmation in relation to the matter in dispute;
- (ii) produce before the arbitrators or umpire all books, deeds, papers, accounts, writings, and documents in their possession or power which may be required or called for;
- (iii) generally do all other things which during the pendency of all the reference the arbitrators or umpire may require.

### Application to Civil Court to Issue Process to Parties or Witnesses.

(r) If the arbitrators or umpire at any stage of an arbitration be of the opinion that it is desirable to examine either party or any witness who may not be willing to give evidence before the arbitrators or umpire or who may be residing outside the City of Madras the arbitrators or umpire may apply to the Civil Court having jurisdiction in that behalf to issue process to such party or witness including the issue of summons and commissions for the examination of witnesses and summons to produce documents and may require any one of or both of the parties to deposit such fee or fees to cover the cost of any such process as the arbitrators or umpires shall consider necessary and in the event of any party who has been called on to deposit such fees failing to do so may dismiss such party's case or deal otherwise with the matter as the arbitrators or umpire may think fit just.

### Penalty for Obstruction

(s) The parties to a reference shall do all acts necessary to enable the arbitrators or umpire to make a just award and shall not wilfully do or cause or allow to be done any act to delay or to prevent the arbitrators or umpire from making an award and if any party shall do or cause or allow to be done any such act that party shall pay the other party such costs as are deemed reasonable by the arbitrators or umpire.

### Powers of Arbitrators or Umpire

- (t) The arbitrators or Umpire may
  - (i) retain or return any or all of the books, documents, or papers produced in any proceedings and may direct at any time that the books, documents or papers produced be returned to the parties or any of them on such terms and conditions as may be in absolute discretion of the arbitrators or umpire be deemed proper;
  - (ii) administer oath or affirmation to the parties or witnesses appearing and giving evidence;
  - (iii) admit such evidence only as may in the absolute discretion of the arbitrators or umpire be deemed proper;
  - (iv) administer to any party to the reference such interrogatories as may in the opinion of the arbitrators or umpire be necessary;
  - (v) make an interim award;
  - (vi) make any award conditional or
  - (vii) rectify or correct in any award any clerical mistake or error arising from any accidental slip or omission.

### Assessor

(u) The arbitrators or umpire may with the permission of the Governing Body or the Managing Director at any time or times before making the final award consult and adopt the advice of counsel, attorney or advocate upon any question of law, evidence, practice, or procedure arising in the course of the reference. The remuneration of such counsel, attorney or advocate shall be paid in advance by the parties to the reference and it shall be borne by them in the proportion stated in the award.

### Ministerial Assistance

(v) Unless the Governing Body or the Managing Director specifically permits no person other than the Secretary or an employee of the Exchange acting under his authority shall be present to assist the arbitrators or umpire in a ministerial or any other capacity during the hearing or determination of a reference.

### Fees and Charges

238. (a) The fees for arbitration and the charges for regulating the proceedings of the reference prescribed from time to time shall be payable in advance. When there is failure, neglect or refusal on the part of one party to pay accordingly the prescribed fees and charges the other party shall be responsible for making such payment of the prescribed fees and charges in advance without prejudice however to his right if any to recover the same from the party failing neglecting or refusing to pay. It shall be a condition precedent to the hearing of any reference to arbitration that the prescribed fees and charges shall have been paid in advance to the Exchange, which shall collect all such fees and charges and make the necessary payments.

### Scale Of Arbitration Fees And Charges

(b) (i) The fees, cost, charges and the expenses of and incidental to the reference and the award shall be such as are prescribed herein or such fees and charges as may be prescribed from time to time by the Governing Body.

#### Institution Fee

(ii) The party instituting a reference shall pay to the Exchange an Institution fee of Rs. 50

#### Arbitration Fee

(iii) The following arbitration fees shall be payable in advance :

- (a) Arbitration fee for each meeting payable by the parties equally per arbitrator ..Rs. 100
- (b) Arbitration fee for the Umpire for each sitting payable by each party ..Rs. 100

#### Additional Payment

(iv) In addition to the Institution Fee and Arbitration Fees the Governing Body or the Managing Director shall have power to direct that such further sum of money as may be deemed fit shall be deposited with the Exchange as security for the fees costs and expenses of the arbitration.

#### Withdrawn Cases

(v) In cases where the party instituting a reference desires to withdraw the case before a meeting of the arbitrators has been summoned the Institution fee only shall be charged. Otherwise the Arbitration fees also shall be charged.

#### Fees for Filing Award

(vi) A party requiring an award to be filed shall pay a fee of Rs. 100 to the Exchange in addition to the court fees on the scale for the time being in force.

(vii) In addition to the fees mentioned in sub-clauses (i) to (vi) the parties shall pay as and when demanded by the Exchange all other fees or charges or expenses incurred or to be incurred during the arbitration.

#### Fees and Charges Payable in Advance

(viii) All fees and charges and expenses shall be payable in advance and when there is failure, neglect or refusal on the part of a party or parties to pay accordingly the other party shall be responsible for making such payment in advance without prejudice however to his right if any to recover the same from such party or parties failing, neglecting or resuming to pay. It shall be a condition precedent to the hearing of any reference that the prescribed fees and charges shall have been paid in advance to the Exchange by the party or parties to the reference.

#### Collection and Payment of Fees and Charges

(ix) The Exchange shall collect all fees and charges and pay the fees to the arbitrators or umpire and make disbursements in connection with the other

costs and expenses of the reference provided always that no larger sum shall be paid than actually collected.

#### Decision on written statements or by Hearings

239. A reference to arbitration may be decided by the arbitrators or umpire on the written statements of the parties. However any party may require of the arbitrators or umpire that he be given a personal hearing. In that event he shall be so heard and the other party shall also be offered a similar privilege.

#### Proceedings

240. The arbitrators or umpire may proceed with the reference to arbitration notwithstanding any failure of the parties to file a written statement within due time. The arbitrators may also proceed with the reference to arbitration in the absence of any or all the parties who after due notice fail or neglect or refuse to attend the hearing at the appointed time and place.

#### Legal Advisers and Evidences

241. During a hearing the parties to the reference to arbitration may with the permission of the arbitrators or umpire appear by counsel, attorney advocate or a duly authorised representative. Where one party is so permitted a similar privilege shall be afforded to the other party. But no party shall be so entitled without the permission of the arbitrators or umpire nor shall the parties be entitled to insist on or require the arbitrators to hear or examine witnesses or receive oral or documentary evidence other than what is deemed necessary by the arbitrators or umpires.

#### Consideration of recorded proceedings and Evidence

242. If the time prescribed in these Bye-laws and Regulations for making an award has been allowed by the arbitrators or umpire to expire without making an award or if an arbitrator or umpire dies or fails or neglects or refuses to act or becomes incapable of acting as an arbitrator or umpire the substitute arbitrator appointed by the Governing Body or the Managing Director and the other arbitrator or the substitute umpire appointed by the Governing Body or the Managing Director shall be at liberty to act upon the record of the proceedings as then existing and on the evidence if any then taken in the reference or to commence the reference afresh.

#### Reference to court of law

243. No reference shall be made by the arbitrators or umpire to any Court of Law on any matter arising out of or relating to any reference without first obtaining the permission of the Governing Body.

#### Set-off and Counter-claim

244. On a reference to arbitration by one party the other party shall be entitled to claim a set-off or make a counter-claim against the first party provided such set-off or counter-claim arises out of or relates to dealings, transactions and contracts made subject to the Rules, Bye-laws and Regulations of the Exchange and subject to arbitration as provided

therein and provided further such set-off or counter-claim is presented together with full particulars at or before the first hearing of the reference but not afterwards unless permitted by the arbitrators or umpire.

#### **Award to Adjudge interest**

245. Where and in so far as an award is for the payment of money the arbitrators or umpire may adjudge in the award the interest to be paid on the principal sum adjudged for any period prior to the institution of the arbitration proceedings and may also adjudge the additional interest on such principal sum as is deemed reasonable for the period from the date of the institution of the arbitration proceedings to the date of the award and further interest on the aggregate sum so adjudged at such rate as is deemed reasonable from the date of the award to the date of payment or the date of the decree.

#### **Costs**

246. The costs of reference and award including costs, charges, fees and other expenses shall be in the discretion of the arbitrators or umpire who may decide and direct in the award to and by whom, in what manner and in what proportion such costs, charges, fees and other expenses or any part thereof, shall be borne and paid by the parties and may tax and settle the amount to be so paid or any part thereof. Failing any direction in the award the costs, charges, fees and other expenses shall be borne by the parties to the reference in equal proportion. A party refusing to carry out an award shall pay the costs between attorney and client in connection with the filing of the award in the Court and its enforcement unless Court otherwise directs.

#### **Operation of Contracts : Madras Jurisdiction**

247. All dealings, transactions and contracts shall be subject to the Rules, Bye-laws and Regulations of the Exchange and every arbitration agreement to which the Rules, Bye-laws and Regulations of Exchange apply shall be deemed in all respects to be subject to the Rules, Bye-laws and Regulations of the Exchange and shall be deemed to be and shall take effect as wholly made, entered into and to be performed in the city of Madras and the parties to such dealings, transactions, contracts and agreements shall be deemed to have submitted to the jurisdiction of the Courts in Madras, for the purposes of giving effect to the provisions of the Rules, Bye-laws and Regulations of the Exchange.

#### **Notices and Communications to members|Non-members|Clients how to be served**

248. Notices and communications to a member or non-member of client shall be served in any one or more or all of the following ways and any such notice or communication under (i) to (v) below shall be served at the ordinary business address and/or ordinary place of residence and/or at the last known address of the parties :

- (i) by delivery by hand ;
- (ii) by sending by registered post;
- (iii) by sending under certificate of posting;
- (iv) by sending by express delivery post;
- (v) by sending by telegram;
- (vi) by affixing on the door at the last known business or residential address;
- (vii) by oral communication to the party in the presence of a third person;
- (viii) by advertising atleast once in any daily Newspaper published in Madras;
- (ix) by a notice posted on the notice board of the Exchange if no address be known.

#### **Service by Delivery by hand when complete**

249. A notice or communication served by hand shall be deemed to have been received by the party on the production of a certificate to that effect duly signed by the person delivering the notice or communication.

#### **Service by post or Telegram when complete**

250. A notice or communication served by post or telegram shall be deemed to have been received by the party at the time when the same would in the ordinary course of post or telegram have been delivered. The production of a letter of confirmation from the post office or of the post office receipt for the registered letter or telegram or of a certificate of posting shall in all cases be conclusive proof of the posting or despatch of such notice or communication and shall constitute due and proper service of notice.

#### **Refusal to accept delivery does not affect service**

251. In no case shall any refusal to take delivery of the notice or communication affect the validity of its service.

#### **Service by advertisement or by notice on notice board when complete.**

252. A notice or communication published in a newspaper or posted on the notice board of the Exchange shall be deemed to have been served on the party on the day on which it is published or posted.

#### **Ministerial Duties**

253. The Secretary or Officer of the Exchange shall

- (i) maintain a register of references;
- (ii) receive all applications for arbitration, reference and communications addressed by the parties before or during the course of arbitration or otherwise in relation thereto;
- (iii) receive payment of all costs, charges, fees and other expenses;

- (iv) give notices of hearing and all other notices to be given to the parties before or during the course of the arbitration or otherwise in relation thereto;
- (v) communicate to parties all orders and directions of arbitrators or umpire;
- (vi) receive and record all documents and papers relating to the reference and keep in custody all such documents and papers except such as the parties are allowed to retain;
- (vii) publish the award on behalf of the arbitrators or umpire;
- (viii) cause the award to be filed on behalf of the arbitrators or umpire; and

- (ix) generally do all such things and take all such steps as may be necessary to assist the arbitrators or umpire in the execution of their functions.

#### Indemnity

254. No party shall bring or prosecute any suit or proceedings whatever against the Exchange, the Governing Body or the Managing Director, the Secretary or any Officer or employee of the Exchange acting under authority, or against the arbitrators or umpire for or in respect of any matter or thing purporting to be done under these Bye-laws and Regulations nor any suit or proceedings (save for the enforcement of the award) against the other party or parties to the reference.



## ARBITRATION BETWEEN MEMBERS

### Reference to Arbitration

255. All claims, whether the claims are admitted or repudiated, complaints, differences and disputes between members arising out of or in relation to any dealings, transactions, contracts in securities made by them with other members of the Exchange subject to the Rules, Bye-laws and Regulations of the Exchange or with reference to anything incidental thereto or anything to be done in pursuance thereof and any question or dispute whether such dealings, transactions, contracts have been entered into or not and the rights, responsibilities and obligations of any member with regard to a Stock Exchange transaction shall all be subject to arbitration under the Rules, Bye-laws and Regulations of the Exchange and referred to and decided by the Arbitration Committee as provided in the Rules, Bye-laws and Regulations and according to practices, customs and usages obtaining on the Exchange.

### Legal proceedings with permission of the governing Body

256. In respect of any claims, complaint, difference or dispute which are required to be referred to arbitration under these Bye-laws and Regulations no member shall institute legal proceedings against another member without the prior permission of the Governing Body. If a member institutes any such legal proceedings without the prior permission and recovers any money or other relief from any other member, such member shall hold the money so recovered in trust for the Exchange and shall make over the money recovered to be dealt with in the manner directed by the Governing Body.

(b) It shall not be within the competence of a member or a non-member to raise any question whatsoever relating to the validity of the Rules, Bye-laws and Regulations or any point with reference to their construction, interpretation, meaning, significance and implication, all of which shall be matters of responsibility entirely and solely vested with the Governing Body in its absolute and uncontrolled discretion.

### Application for arbitration

257. Whenever a claim, complaint, difference or dispute which under these Bye-laws and Regulations are required to be referred to the Arbitration Committee arises between members any member who is a party to such claim, complaint, difference or dispute may apply to the Arbitration Committee to inquire into and arbitrate in the dispute, in accordance with the provisions contained in these Bye-laws and Regulations. The member applying for arbitration under

these Bye-laws and Regulations may submit the application for arbitration in the form of a letter addressed to the Managing Director of the Exchange setting out the details of the reference alongwith statement of the case and all supporting documents. No special forms of application for arbitration between Members are prescribed.

### Arbitrators

258. Whenever a reference is made to the Arbitration Committee it shall be heard by any two members of the Arbitration Committee acting as arbitrators in regard to such reference. The two arbitrators to go into reference shall be appointed by the Managing Director from the panel of arbitrators.

### Late claims barred

259. The Arbitration Committee shall not take cognisance of any claim, complaint, difference or dispute which shall not be referred to it within six months of the date when it arose.

### Notice

260. Save as otherwise provided not less than seven days' notice of the time and place appointed for the hearing shall be given by the arbitrators to both the member parties to the reference.

### Both parties present

261. If both the member parties to the reference are present at the appointed time and place the arbitrators shall proceed to hear the reference and to give the award.

### Ex-parte decision and summary disposal

262. If the member party against whom the reference is filed be not present at the appointed time and place the arbitrators may hear and decide the reference ex parte and if the party filing the reference be not present the arbitrators may dismiss the reference summarily.

### Disagreement between arbitrators

263. If the arbitrators hearing a reference are not agreed as to the award to be made they shall refer the subject matter of the reference or such part thereof in respect of which they cannot agree to a third member of the Arbitration Committee and the three members shall then together arbitrate in the reference and the award of any two of them shall be deemed to be the award in the reference to arbitration.



### **Appeal to arbitration committee**

264. Any member party to a reference who is dissatisfied with any award of the arbitrators may appeal to the Arbitration Committee against the award of the Arbitrators within seven days of the date of receipt of the award by him.

### **Deposit and statement of objection**

265. (a) The member party appealing to the Arbitration Committee may state in writing the objections to the award of the arbitrators and shall unless exempted in whole or in part by the Governing Body or the Managing Director deposit with the Exchange in cash the full amount ordered to be paid under the award of the arbitrators or deposit the securities or the value at the ruling market price of the securities ordered to be delivered in the award. The member party placing the deposit shall be deemed to have agreed that such deposit shall be deemed to have agreed that such deposit be handed over by the Exchange to the other party in accordance with the terms of the decision in appeal of the Arbitration Committee.

### **Deposit certificate**

(b) A certificate from the Exchange showing that the deposit if any as required by sub-clause (a) has been lodged shall be attached to the appeal and the Arbitration Committee shall not entertain any appeal to which such certificate is not annexed.

### **Hearing of appeal**

266. When the deposit certificate is annexed to the appeal the Arbitration Committee shall itself proceed to hear the appeal and arbitrate in the reference.

267. In any such appeal, the arbitrators, who had given the award against which the appeal has been preferred to the Arbitration Committee, shall not participate in the appeal proceedings of the Arbitration Committee.

### **Award of arbitration committee when final**

268. The award of the Arbitration Committee in a reference shall be final and shall be binding on the parties to the reference if the sum involved in dispute is less than ten thousand rupees.

### **Appeal to the Governing Body**

269. If the sum involved in dispute is ten thousand rupees or more the member party dissatisfied with the award of the Arbitration Committee may appeal to the Governing Body against such award within seven days of the receipt of such award.

### **Written objections and certificate**

270. (a) The member party appealing to the Governing Body may state in writing the objections to the award of the Arbitration Committee and shall deposit with the Exchange in cash the full amount

ordered to be paid under the award of the arbitrators or deposit the securities or the value at the ruling market price of the securities ordered to be delivered in the award. The member party placing the deposit shall be deemed to have agreed that such deposit be handed over by the Exchange to the other party in accordance with the terms of the decision in appeal of the Governing Body.

### **Deposit Certificate**

(b) A certificate from the Exchange showing that the deposit as required by sub-clause (a) has been lodged shall be attached to the appeal and the Governing Body shall not entertain an appeal to which such certificates is not annexed.

### **Decision of the Governing Body**

271. When the deposit certificate is annexed to the appeal the Governing Body shall proceed to hear the appeal and give the decision which shall be deemed final and binding on both the member parties to the appeal.

### **Signing of Award**

272. An award made by the arbitrators or the Arbitration Committee or an appeal decision of the Governing Body shall be in writing and may be signed by the arbitrators or the Chairman of the Arbitration Committee and on behalf of the Governing Body by the Managing Director of the Exchange and by no other member and may be countersigned by an official of the Exchange.

### **Parties to Arbitration reference not to attend**

273. A member of the Arbitration Committee or the Governing Body who happens to be a member party to the reference shall not attend any meeting of the Arbitration Committee or the Governing Body at which an inquiry into the reference or appeal is made or at which a reference or appeal is heard.

### **Adjourned Meetings**

274. It shall be no objection to an award of the Arbitrators or the Arbitration Committee or the Governing Body that the meeting at which a reference or appeal has been inquired into or a reference or appeal has been heard had been adjourned from time to time, or that the inquiry has not been completed or that the reference or appeal has not been finally heard at one meeting.

### **Change in composition**

275. It shall be no objection to an award of the Arbitration Committee or the appeal decision of the Governing Body that the composition of the Arbitration Committee or the Governing Body changed during the inquiry or reference or appeal.

### **Summary Dismissal**

276. If a party to a reference who has appealed to the Arbitration Committee or to the Governing Body against an award be not present at the time fixed for

hearing the appeal the Arbitration Committee or the Governing Body as the case may be, may dismiss the appeal summarily.

#### **Appeal ex parte**

277. If a party to a reference in whose favour an award has been made be not present at the time fixed by the Arbitration Committee or the Governing Body for hearing the appeal against such award the Arbitration Committee or the Governing Body may proceed to hear the appeal ex parte.

#### **Rehearing ex parte Award**

278. On sufficient cause being shown the Arbitration Committee may set aside an ex parte award made by the Arbitrators or the Arbitration Committee and the Governing Body may similarly set aside any ex parte award and in such case the Arbitration Committee or the Governing Body may direct that the reference or the appeal be again enquired into or heard.

#### **Remission of Award**

279. The Governing Body in its discretion may within fifteen days of an award remit the award or any matter referred to arbitration to the arbitrators or the Arbitration Committee upon such terms as it thinks fit and thereupon the arbitrators or the Arbitration Committee shall reconsider the matter and either confirm or revise the previous decision.

#### **Fresh Reference on Non-Compliance with Award when allowed**

280. Whenever an award directs that certain acts or things be done by the member parties to the reference and one member party fails to comply with such direction the other member party may make a fresh reference for a further award for determining the dispute outstanding or the amount of damages or compensation payable by reason of such failure.

#### **Extension of Time**

281. The Governing Body may for special reasons extend the time within which a reference to arbitration or an appeal against any award of the arbitrators or the Arbitration Committee may be made whether the time for making the same has expired or not.

#### **Extension of time for making an award**

282. The Governing Body may if deemed fit whether the time for making the award has expired or not and whether the award has been made or not extend from time to time the time for making an award.

#### **Remedies at law**

283. The Arbitration Committee or the Governing Body may decline to hear a reference or an appeal or may dismiss any reference or appeal at any time during the proceedings and refer the member parties to their remedies at law and it shall so refer them upon the joint request of the parties.

#### **Penalty on failure to submit to or abide by award in Arbitration**

284. Any member who fails or refuses to submit to or abide by or carry out any award in arbitration between members as provided in these Bye-laws and Regulations or any member who fails to act in consonance with the provisions of the Bye-laws and Regulations of the Exchange relating to Arbitration shall be expelled by the Governing Body and thereupon the other member party shall be entitled to institute any suit or legal proceedings to enforce the award or otherwise assert his rights.

#### **Arbitration Fees**

285. (a) The parties desiring to make a reference to arbitration or proceed in appeal shall pay in advance the fees prescribed from time to time.

#### **Fees for arbitration between members**

(b) Unless otherwise revised the fees payable in advance for arbitration between members shall be under or such other as the Governing Body may from time to time determine :

|                                     | FEES    |
|-------------------------------------|---------|
| Application for Arbitration         | Rs. 25  |
| Appeal to the Arbitration Committee | Rs. 50  |
| Appeal to the Governing Body        | Rs. 100 |
| Re-hearing of ex-party award        | Rs. 100 |

#### **Payment of fees**

286. Unless otherwise directed in the award the party against whom the award is finally made and shall pay all fees paid by the other party to the reference in connection with the arbitration proceedings.

#### **Legal Advisers**

287. During a hearing the parties to the reference may with which the permission of the Arbitration Committee or the Governing Body appear by counsel, attorney, advocate or a duly authorised representative. Where one party is so permitted a similar privilege shall be afforded to the other party or parties.

## CHAPTER 18

### DEFAULT

288. Any member of the Exchange shall be declared a defaulter, by the Governing Body or the Managing Director and shall be deprived of all privileges and expelled from the Membership of the Exchange :

- (i) if he is unable to fulfil his market engagements, obligations, dues and liabilities ; or
- (ii) if he fails to meet his market obligations and dues to his clients ;
- (iii) if it is observed or he admits or discloses his inability to fulfil or discharge his engagements, obligations and liabilities ; or
- (iv) if he fails or is unable to pay within the specified time the damages and the money difference due on a closing-out effected against him under these Bye-laws and Regulations ;
- (v) if he fails to pay any sum payable to the Exchange for facilities made available to him to carry on his stock broker business in securities or anything incidental thereto ;
- (vi) if he fails to pay or deliver to the Defaulters' Committee all monies, securities and other assets due to a member who has been declared defaulter within such time of the declaration of default of such member as the Governing Board or the Managing Director may direct ;
- (vii) if he is declared an insolvent.

#### Failure to fulfil Obligation to Members and non-Members

289. The Governing Board may order a member to be declared a defaulter if he fails to meet an obligation to a member or non-member arising out of any Stock Exchange transaction or resulting from Stock broking business.

#### Insolvent to be Declared a Defaulter

290. A member who has been adjudicated an insolvent shall be *ipso facto* declared a defaulter although he may not be at the same time a defaulter of the Exchange.

#### Duty of Members to Inform

291. A member shall be duty bound to inform and notify the Exchange immediately if there be a failure by any other member to discharge in full his market engagements, obligations or liabilities either to a member or a non-member client.

#### Compromise Forbidden

292. A member guilty of accepting from any member anything less than a full and a bona fide money payment in settlement of a debt arising out of transactions in Stock Exchange securities shall be suspended for such period as the Governing Body may determine.

#### Notice of Declaration of Default

293. On a member being declared a defaulter a notice of declaration of default shall be issued to the member and a notice to that effect shall be posted forthwith on the notice board of the Exchange for the information of other members.

#### Defaulter's Books and Documents

294. When a member has been declared a defaulter the Defaults' Committee shall take charge of all his books of accounts documents, papers and vouchers to ascertain the state of his affairs and the defaulter shall hand over such books, documents, papers and vouchers to the Defaults' Committee.

#### List of Debtors and Creditors

295. The defaulter shall file with the Defaults' Committee within such time of the declaration of his default as the Governing Body or the Managing Director may direct a written statement containing a complete list of his debtors and creditors and the sum owing by and to each.

#### Defaulter to give Information

296. The defaulter shall submit to the Defaults' Committee such statement of accounts, information and particulars of his affairs as the Defaults' Committee may from time to time require and if so desired shall appear before the Default's Committee at its meetings held in connection with his default.

#### Defaulter not co-operating with the Defaults Committee

297. If however the defaulter does not cooperate with the Defaults' Committee and refuses to hand-over such books, documents, papers and vouchers in his possession to the Defaults' Committee, the Defaults' Committee shall process all the work relating to the defaulter arising out of his having been declared a defaulter on the basis of books, documents, papers and vouchers already in the possession of the Default's Committee and proceed relying upon the available records and the statements of dues and claims against

the defaulter owing to the Exchange and Members of the Exchange as submitted by them. All the other provisions in the Bye-laws and Regulations relating to Default shall apply *mutatis mutandis*.

### **Inquiry**

298. The Defaults' Committee shall enter into a strict inquiry into the accounts and dealings of the defaulter in the market and shall report to the Governing Body or the Managing Director anything improper, unbusinesslike or unbecoming a member which may come to its knowledge in the course of the inquiry.

### **Defaulters' Assets**

299. The Defaults' Committee shall call in and realise the security and margin money and the securities deposited by the defaulter and recover all monies, securities and other assets due, payable or deliverable to the defaulter by any other member in respect of any transaction or dealing made subject to the Rules, Bye-laws and Regulations of the Exchange and such assets shall vest in the Defaults' Committee for the benefit and on account of the creditor members, the amount so vested being called the 'Special Fund'.

### **Payment to Defaults' Committee**

300. All monies, securities and other assets due, payable or deliverable to the defaulter must be paid or delivered to the Defaults' Committee within such time of the declaration of default as the Governing Body or the Managing Director may direct. A member violating this provision shall be declared a defaulter.

### **Fraudulent Reference**

301. Members who may have received any difference on account or any consideration in any transaction prior to the date fixed for settling such account or transaction shall in the event of the member from whom he received such difference or consideration being declared a defaulter refund the same to the Defaults' Committee for the benefit and on account of the creditor members. Any member who may have paid or given such difference or consideration to any other member prior to such settlement day shall again pay or give the same to the Defaults' Committee for the benefit and on account of the creditor members in the event of the default of such other member.

### **Preferential Differences**

302. A member who receives from another member during any Settlement a Claim Note or Credit Note representing a sum other than a difference due to him or due to his client which amount is to be received by him on behalf and for the account of that client for that Settlement shall refund such sum if such other member be declared a defaulter within seven days after the Settling Day. Such refund shall be made to the Defaults' Committee for the benefit and on account of the creditor members and it shall be applied in liquidation of the claims of such creditor members whose claims are admitted in accordance with these Bye-laws and Regulations.

### **Distribution**

303. The Defaults' Committee shall at the risk, responsibility and cost of the creditor members pay all assets received in the course of realisation into such bank and/or keep them with the Clearing House in such names as the Governing Body may from time to time direct or with the Exchange in a separate Bank Account and shall distribute the same as soon as possible *pro rata* but without interest among the creditor members whose claims are admitted in accordance with these Bye-laws and Regulations.

### **Fixed Fair Price**

304. On a member being declared a defaulter the Governing Body shall fix fair price on the basis of the closing prices ruling in the market for the business day immediately preceding the day of the declaration of fault, at which all outstanding transactions with the defaulter shall stand squared up, for determining the financial commitment of the defaulter to the other members.

### **Adjustment at Fair-Prices**

305. Members, having transactions with the defaulter in the current Settlement in which his default has been declared shall adjust their accounts at Fair Prices fixed by the Governing Body. All the outstanding transactions of members with the defaulter shall stand squared up at the Fair Prices for determining the overall financial market commitment of the defaulter to the other members.

### **Adjustment of Accounts with Defaulter**

306. Members having transactions with the defaulter shall adjust their accounts with the defaulter at the Fair Prices fixed by the Governing Body. The difference arising from such adjustment shall as the case may be either claimed from the defaulter or paid to the Defaults' Committee for the benefit of members who are creditors of the defaulter.

### **Claims Against Defaulter**

307. Within such time of the declaration of default as the Governing Body or the Managing Director may direct every member carrying on business on the Exchange shall according as he may be required to do either compare with the Defaults' Committee his accounts with the defaulter duly adjusted and made up as provided in these Bye-laws and Regulations or furnish a statement of such accounts with the defaulter in such form or forms as the Governing Body may prescribe or render a certificate that he has no such account.

### **Delay in comparison or submission of Accounts**

308. Any member failing to compare his accounts or send a statement or certificate relating to a defaulter within the time prescribed shall be called upon to compare his accounts or send such statement or certificate within such further time as may be specified.

### **Penalty for failure to compare or submit account**

309. The Governing Body may fine, suspend or expel any member who fails to compare his accounts or submit a statement of his accounts with the defaulter or a certificate that he has no such account within the prescribed time.

### **Misleading Statement**

310. The Governing Body may fine, suspend or expel a member if it is satisfied that any comparison statement or certificate relating to a defaulter sent by such member who was false or misleading.

### **Accounts of Defaults' Committee**

311. The Defaults' Committee shall keep a separate account in respect of all moneys, securities and other assets payable to a defaulter which are received by it and shall defray therefrom all costs, charges and expenses incurred in or about the collection of such assets or in or about any proceedings it takes in connection with the default.

### **Report**

312. The Defaults' Committee shall every month present a report to the Governing Body relating to the affairs of a defaulter and shall show the assets realised, the liabilities discharged and dividends given.

### **Inspection of Accounts**

313. All accounts kept by the Defaults' Committee in accordance with these Bye-laws and Regulations shall be open to inspection by any creditor member.

### **Report to Governing Body**

314. After completing its deliberations, the Defaults' Committee shall submit a report to the Governing Body containing the following particulars :—

- (a) Value of assets belonging to the expelled member which have been realised;
- (b) Amount of claims against the same;
- (c) Amount of charges to be paid to the Exchange;
- (d) Dividend proposed to be distributed;
- (e) Violations of any provisions of the Bye-laws by any of the creditor members, if any.

### **Scale of Charges**

315. The charges to be paid to the Exchange on the assets collected shall be 10 per cent on the first Rs. 25,000 collected or part thereof and 5 per cent on any sum in excess of Rs. 25,000 or such other as the Governing Body may from time to time prescribe.

### **Application of Assets**

316. The Defaults' Committee shall apply the net assets remaining in its hands after defraying all such costs, charges and expenses as are allowed under these

Bye-laws and Regulations in satisfying first the claim of the Exchange and the Clearing House and then rateably such admitted claims of members against the defaulter arising out of contracts entered into in the market in accordance with the provisions of the Rules, Bye-laws and Regulations of the Exchange.

### **Certain Claims not to be entertained**

317. The Defaults' Committee shall not entertain any claim against a defaulter.

- (i) which arises out of a contract in securities dealings in which are not permitted or which are not made subject to the Rules, Bye-laws and Regulations of the Exchange;
- (ii) which arises out of a contract in respect of which comparison has not been made in the manner prescribed in the Bye-laws and Regulations or when there has been no comparisons if a memo of confirmation in respect of such transactions has not been rendered as provided in these Bye-laws and Regulations stating the date and the number of the memo of confirmation rendered or by comparison of memos in members offices;
- (iii) which arises from transactions in securities not settled by delivery and payment within the time prescribed by these Bye-laws and Regulations;
- (iv) which arises from any arrangement for settlement of claims in lieu of bonafide money payment in full on the day when such claims become due;
- (v) which arises from any outstanding balance or any outstanding difference upon previous transactions which has not been claimed at the proper time and in the manner prescribed in these Bye-laws and Regulations;
- (vi) which is in respect of a loan with or without security;
- (vii) which is not filed with the Defaults' Committee within such time of the date of declaration of default as may be prescribed by the Governing Body.

### **Differences Due**

318. Any difference due to or from a defaulter in the current Settlement shall be allowed to be set off against that due in the ensuing Settlement.

### **Claims of Defaults' Committee**

319. A claim of one defaulter whose estate is represented by the Defaults' Committee against another defaulter shall have any priority over the claims of other creditor members but shall rank along with other claims.

### **Assignment of Claims on defaulters' estate**

320. A member being a creditor of a defaulter shall not sell, assign or pledge his claim on the estate of such defaulter without the consent of the Governing Body.

### **Proceedings in name of defaulter**

321. The Defaults' Committee with the consent of the members who are creditors of a defaulter shall be entitled to take any proceedings in a Court of Law either in its own name or in the name of the defaulter as it may be advised for recovering any assets of the defaulter.

### **Payment to Defaults' Committee**

322. If any member takes any proceedings in a Court of Law against a defaulter whether during the period of his default or subsequent to his readmission to enforce any claim against the defaulters' estate arising out of any transaction or dealing in the market made subject to the Rules, Bye-laws and Regulations of the Exchange before he was declared a defaulter and obtains a decree and recovers any sum of money thereon he shall pay such amount or any portion thereof as may be fixed by the Governing Body to the Defaults' Committee for the benefit and on account of the creditor members having claims against such defaulter.

### **Governing Body to fix a day for hearing**

323. On receipt of the report by the Defaults' Committee the Governing Body may fix a day for its consideration by posting a notice on the notice board of the Exchange. Any member having a grievance shall be entitled to appear before the Governing Body and the Governing Body shall give him a hearing.

### **Determination of Dividend**

324. The Governing Body may either approve the report in totality or direct the Defaults' Committee to make such alterations as the Governing Body may consider necessary in the report. The Governing Body shall also determine the dividend to be declared by the Defaults' Committee. Before determining the dividend the Governing Body shall deduct from the assets all dues to the Exchange and the staff of the member defaulter which shall have been proved to its satisfaction.

### **Payment of Dividend**

325. It shall be the responsibility of the Managing Director to pay the dividends to the creditor members in such manner as he deems proper in the circumstances. Dividends payable to a creditor who is deceased

shall be payable to his legal representatives or heirs and dividends remaining unclaimed for more than one year from the date of declaration shall be disposed in such manner as the Governing Body determines.

### **General Notice of Dividend**

326. A notice of any dividend declared by the Defaults' Committee shall be posted on the notice Board of the Exchange.

### **Payment of Dividend**

327. Dividends declared shall be paid to each creditor member either by crediting his account with the Clearing House or in such other manner as the Governing Body or Managing Director directs. Creditor members who do not maintain an account with the Clearing House shall be paid such dividends on application.

### **Unclaimed Dividend**

328. If any dividend which has been declared on claims admitted by the Defaults' Committee but which the member entitled (except in the case of a member who shall have died) has failed or neglected to claim remains with the Defaults' Committee for more than one year or where after paying a final dividend any assets of the defaulter remain unclaimed or undistributed the same shall be dealt with or disposed of by the Governing Body on behalf of the creditor members.

### **Deceased creditors**

329. If any member who is a creditor of a defaulter be dead the dividend due to such member shall be paid to his legal representatives or heirs on application even when the right of nomination has been exercised in respect of such deceased creditor member. But if such deceased creditor be himself a defaulter the dividend due shall be paid to the Defaults' Committee for the benefit and on account of the creditor members.

330. Members who have been declared defaulter under the provisions of the Bye-laws and Regulations shall not at any time take the matter of default or any question relating thereto to a Court of Law. All members shall be estopped from dragging the Exchange, the Governing Body or the Managing Director or any Officer of the Exchange to a Court of Law for the reason that the member has been declared a defaulter under the provisions of the Bye-laws and Regulations.

# E R R A T A

| Page No. | Para No. | Line               | For          | Read       |
|----------|----------|--------------------|--------------|------------|
| 1        | 1.6      | 1                  | buoyancv     | buoyancy   |
| 2        | 1.16     | 4                  | grate        | great      |
| 8        | 2.16     | 5                  | widens       | widen      |
| 12       | 2.38     | Sub para beginning | (ii)         | (iii)      |
| 25       | 3.42     | 6                  | fey          | few        |
| 28       | 3.42     | 6                  | Volmeot      | Volume of  |
| 28       | 4.6      | 1                  | Memberssship | Membership |
| 33       | 4.38     | Heading            | Riht         | Right      |
| 34       | 4.50     | Heading            | Municipal    | Multiple   |
| 47       | 6.12     | 3                  | development  | devolvment |
| 48       | 6.18     | 27                 | development  | devolvment |
| 50       | 6.34     | 4                  | decided      | decide     |
| 64       | 7.7      | 10                 | bevond       | beyond     |
| 72       | 7.58     | 27                 | tock         | stock      |
| 75       | 7.80     | 13                 | nonour       | honour     |
| 76       | 7.88     | 20                 | elewhere     | elsewhere  |
| 78       | 7.100    | 9                  | he           | the        |
| 78       | 7.101    | 3                  | caryy        | carry      |
| 82       | 7.112(i) | 10                 | projudice    | prejudice  |
| 87       | 8.9      | 22                 | act          | acts       |
| 90       | 8.34     | 15                 | receive      | receives   |
| 91       | 8.34     | 16                 | pay          | pays       |
| 93       | 9.14     | 1                  | proviisons   | provisions |
| 95       | (xxii)   | 1                  | carr-out     | carryout   |
| 96       | xiii     | 1                  | carriout     | carryout   |
| 107      | 10.53    | 2                  | not in       | not, in    |
|          |          |                    |              | ...2.....  |

| Page No. | Para No.                                            | Line                  | For             | Read            |
|----------|-----------------------------------------------------|-----------------------|-----------------|-----------------|
| 131      | (iii) in summary<br>pertaining to<br>7.88           | 12                    | paying          | paving          |
| 132      | (ii) in summary<br>pertaining to<br>7.97            | 3                     | must filed      | must be fil     |
| 136      | summary pertaining<br>to para 10.5 &<br>10.6        | 1                     | shold           | should          |
| 137      | (viii) in summary<br>pertaining to<br>10.39 - 10.57 | 4                     | decision        | decision        |
| 141      | Item 3 relating<br>to para 3.40                     | 9                     | Councili        | Council         |
| 184      | 3(c)                                                | 2                     | consolidation   | consolidation   |
| 187      | 5                                                   | 29                    | Notwithstanding | Notwithstanding |
| 188      | 11                                                  | 3                     | than            | then            |
| 189      | 13(b)                                               | 8                     | included        | include         |
| 189      | 13(c)                                               | 18                    | publci          | public          |
| 193      | 14(b)                                               | 3                     | received        | receive         |
| 193      | 16                                                  | 8                     | ni              | in              |
| 195      | 34(f)                                               | 1                     | sent            | send            |
| 195      | 39                                                  | 2                     | eing            | being           |
| 196      | 40(ii)                                              | 19                    | situate         | situated        |
| 197      | EXPLANATION<br>(h) (i)                              | 1                     | even            | event           |
| 201      | 19(e) (iii)                                         | 2                     | finncial        | financial       |
| 224      | 3.4.1                                               | 11                    | frequency       | frequency       |
| 246      | Table 11                                            | 3-Item<br>under. 1984 | 2               | -               |
| 248      | Table 13                                            | Item 2                | Rs. las         | Rs. lacs        |
| 248      | Table 13                                            | 1972-Total            | 16599           | 16598           |
| 248      | Table 13                                            | 1983-item 4           | 0.26            | 2.64            |



| Page No. | Para No.           | Line                        | For                  | Read                 |
|----------|--------------------|-----------------------------|----------------------|----------------------|
| 6        |                    |                             |                      |                      |
| 249      | Table 14           | 1981-82 -<br>Line 2, Col. 1 | 277773.32            | 27773.32             |
| 252      | Table 17           | 1971-72-Total               | TOL                  | TOTAL                |
| 254      | Table 17           | 1980-81 -Total<br>Col. 2    | 209.46               | 209.26               |
| 254      | Table 17           | 1981-82 -line 2,<br>Col. 3  | 77.87                | 7.87                 |
| 261      | Table 24(Contd.)   | heading 1980-81             | 1080-81              | 1980-81              |
| 261      | Table 24(Contd.)   | 1981-82, line 2             | Rs. 5 lakhs          | Rs. 25 lakhs         |
| 269      | 2                  | 2                           | by th                | by the               |
| 271      | 6                  | 9                           | cristing             | existing             |
| 272      | 12                 | 15                          | salutorily           | statutorily          |
| 275      | 23                 | 3                           | of of                | of                   |
| 279      | 4                  | 2                           | holddays             | holidays             |
| 279      | 11                 | 2                           | clearks              | clerks               |
| 280      | 14                 | 1                           | authoised            | authorised           |
| 280      | 17(a)              | 4                           | followng             | following            |
| 282      | 23(a)              | 3                           | from                 | firm                 |
| 282      | 23(d)              | 9                           | requiremnets         | requirements         |
| 283      | 31                 | 3                           | marked               | market               |
| 285      | 43(iii)            | 5                           | provdied             | provided             |
| 289      | 63                 | 3 & 4                       | Managing<br>Director | Managing<br>Director |
| 289      | 63                 | 7                           | prermitted           | permitted            |
| 289      | 65                 | 7                           | Governing<br>Boday   | Governing Body       |
| 289      | 69                 | 8                           | is                   | his                  |
| 292      | 78                 | Heading                     | omaibus<br>clause    | omnibus clause       |
| 299      | 86, sub-para<br>44 | 5 & 6                       | interminate          | intermediate         |

| Page No. | Para No.        | Line    | For                                                       | Read        |
|----------|-----------------|---------|-----------------------------------------------------------|-------------|
| 299      | 86, sub=para 45 | Heading | Clossing-out                                              | closing-out |
| 301      | 99              | Heading | delivery                                                  | deliver     |
| 302      | 104             | 3       | maf                                                       | may         |
| 303      | 114(c)          | 2       | transter                                                  | transfer    |
| 309      | 144(b)          | Heading | Lelivery                                                  | Delivery    |
| 309      | 144(e)(i)       | 1       | cages                                                     | pages       |
| 313      | 158(iii)        | 11      | poin                                                      | point       |
| 321      | 198(a)          | 20      | provide                                                   | provided    |
| 325      | Heading         | 2       | contact                                                   | contract    |
| 325      | -               | 6       | MaADRAS                                                   | MADRAS      |
| 326      | 223(a)          | 4       | the reto                                                  | thereto     |
| 326      | 223(a)          | 8       | an                                                        | and         |
| 326      | 223(b)          | 3       | cutom                                                     | custom      |
| 329      | 208(b)          | 23      | cred tor                                                  | creditor    |
| 333      | 236             | 4       | extend                                                    | extended    |
| 340      | 265(a)          | 11      | deemed to have<br>agreed that<br>such deposit<br>shall be | ---         |
| 341      | 282             | 3       | extend                                                    | extended    |
| 345      | 322             | 7       | decalred                                                  | declared    |
| 345      | 330             | 5       | estopped                                                  | stopped     |